



*North Dakota Public Employees Retirement System*

*An Agency of the State of North Dakota*

# **Comprehensive Annual Financial Report**

*For the Fiscal Year Ended June 30, 2001*

# North Dakota Public Employees Retirement System

*An Agency of the State of North Dakota*



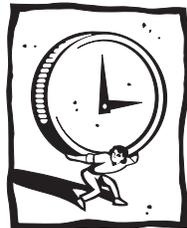
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## **Comprehensive Annual Financial Report**

*For the Fiscal Year Ended June 30, 2001*

Prepared by the staff of the North Dakota Public Employees Retirement System  
400 East Broadway, Suite 505, Bismarck, North Dakota 58501

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# INTRODUCTORY SECTION

GFOA  
CERTIFICATE OF  
ACHIEVEMENT

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## North Dakota Public Employees Retirement System

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*James D. Arave*  
President

*Jeffrey L. Essler*  
Executive Director

**PPCC  
ACHIEVEMENT  
AWARD**



**Public Pension Coordinating Council  
Public Pension Principles  
2000 Achievement Award**

Presented to  
**North Dakota Public Employees  
Retirement System**

In recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Principles.

*Presented by the Public Pension Coordinating Council, a confederation of*  
Government Finance Officers Association (GFOA)  
National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads 'Michael L. Mory'.  
Michael L. Mory  
Chairman

**LETTER OF  
TRANSMITTAL**



**North Dakota  
Public Employees Retirement System**  
400 East Broadway, Suite 505 • Box 1657  
Bismarck, ND 58502-1657

Sparb Collins  
Executive Director  
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December 3, 2001

Board of Trustees  
Members of the System

We are pleased to present the Comprehensive Annual Financial Report for the North Dakota Public Employees Retirement System (System) for the fiscal year ended June 30, 2001. The management of the System is responsible for both the accuracy of the data and the completeness and fairness of the presentation.

The report consists of five sections:

1. The Introductory Section contains this Letter of Transmittal and an overview of our administrative organization.
2. The Financial Section contains a letter expressing the opinion of our independent auditor, the System's financial statements, required supplementary information and other supplementary financial information.
3. The Investment Section contains an overview of the investment portfolio, a summary of the System's investment policies, the asset allocation, and investment performance and fees.
4. The Actuarial Section contains the Actuarial Valuation Certificates and summaries of major actuarial assumptions, plan provisions, and participant data.
5. The Statistical Section contains membership and financial information for the programs administered by the System.

**Plan History and Services Provided**

The System is the administrator of two defined benefit pension plans and a new optional defined contribution retirement plan. The System also manages and administers the retiree health insurance credit program, the uniform group insurance program, the deferred compensation program and the pretax benefits program. Following is a brief overview of the statistical and financial highlights for each of these programs for the fiscal year ended June 30, 2001.

**Defined Benefit Pension Plans**

The Public Employees Retirement System (PERS) is a cost-sharing multiple-employer retirement plan. PERS was established July 1, 1966 as a defined contribution plan and was changed to a defined benefit plan by the 1977 North Dakota Legislature. PERS covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. It also covers Supreme and District Court Judges and the National Guard Security Officers and Firefighters. The Highway Patrolmen's Retirement System (HPRS) is a single-employer defined benefit plan established July 1, 1949 that covers substantially all sworn officers of the North Dakota Highway Patrol. The System became the administrator of this plan effective July 1, 1983.

PERS has 16,756 contributing members and 5,075 retirees and beneficiaries currently receiving benefits. HPRS has 124 contributing members and 81 retirees and beneficiaries. The employers participating in PERS include 88 state agencies and 230 political subdivisions.

PERS and HPRS are accounted for as pension trust funds.

**Defined Contribution Retirement Plan**

An optional Defined Contribution Retirement Plan (Plan) was established effective January 1, 2000. The Plan covers state employees who are in positions not classified by the central personnel division of the State of North Dakota. Employees of the judicial branch or the Board of Higher Education and State Institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Plan. The Plan has 266 participants.

The defined contribution retirement plan is accounted for as a pension trust fund.



### **Retiree Health Insurance Credit Program**

This program was created by the North Dakota Legislature in 1989. It is designed to provide members with a benefit that can be used to offset the cost of their health insurance premiums during their retirement years. Approximately 67% of eligible retirees are receiving benefits under this plan.

This program is advance-funded on an actuarially determined basis. The market value of net assets available to pay benefits as of June 30, 2001 is \$24.6 million, a decrease of 5.7% over the previous year. The assets earned an annualized rate of return of -7.65% for the fiscal year ended June 30, 2001, 4.26% for the last three years and 9.96% for the last five years. As of fiscal year end, the program's actuarial value of assets was 37.9% of the actuarial accrued liability. Funding progress is covered in more detail in the actuarial section of this report.

The retiree health insurance credit program is accounted for as a pension trust fund.

### **Uniform Group Insurance Program**

*Group Health Insurance.* The System began administering the group health insurance plan in 1971. There are 21,778 active and retired contracts under this plan as of June 30, 2001, an increase of 3.2% from last year at this time. Total covered lives, including spouses and dependents, are 53,283. Membership in the health insurance plan continues to increase as a result of more retirees and political subdivision employees in the plan. As of June 30, 2001 there were 140 political subdivisions participating in the group health program, an increase of 25% from last year. The health insurance premiums paid to Blue Cross Blue Shield for the fiscal year ended June 30, 2001 totaled \$85.3 million. Managed care continues to be at the forefront of plan design initiatives. Since 1989, a Preferred Provider Option (PPO) has been available and in 1997, the Exclusive Provider Option (EPO) pilot program became a permanent option under the plan.

*Group Life Insurance.* The System began administering the group life insurance plan in 1971. There are 16,520 active and 3,486 retired employees covered under the basic life insurance plan. Active employees have the option of purchasing additional life insurance under the employee supplemental, dependent supplemental, and spouse supplemental provisions of the plan. The life insurance premiums paid to ReliaStar for the fiscal year ended June 30, 2001 totaled \$2.0 million. As of fiscal year end, there is \$785.1 million of life insurance in force for all participants covered by this plan, a 4.3% increase in coverage from last year.

*Voluntary Insurance Products.* The 1995 North Dakota Legislature authorized the System to offer voluntary insurance products, specifically dental, vision and long term care insurance. On January 1, 1997, the System began offering a dental plan and long term care plan. There are approximately 3,400 participants in the dental plan and 50 participants in the long term care plan.

*Employee Assistance Program.* The 1997 North Dakota Legislature authorized the System to administer an employer-sponsored Employee Assistance Program (EAP) for all state employees, effective August 1, 1997. The System has contracted with four EAP vendors to provide services to employees and their families. The System collects the monthly premiums from the employers and remits them to the appropriate vendor. Approximately 13,800 state employees are covered under this program.

The uniform group insurance plan is a public entity risk pool and is accounted for as an enterprise fund.

### **Deferred Compensation Program**

This is a voluntary, supplemental retirement plan provided in accordance with Section 457 of the Internal Revenue Code. It allows eligible employees to defer and invest income on a pretax basis to be withdrawn at a later date, usually at retirement. The System has administered the Plan since 1987. Fifteen companies have agreed to provide investment services for the State's deferred compensation program. The System is the trustee for deferred compensation assets totaling \$7.7 million; provider companies hold the remaining plan assets of \$68.0 million in custodial accounts for the exclusive benefit of participants and their beneficiaries. Approximately 5,500 employees participate in this program, a 15% increase from last year.

The deferred compensation program is accounted for as an expendable trust fund.

**Pretax Benefits Program (FlexComp)**

This program was established by the North Dakota Legislature in 1989 in accordance with Section 125 of the Internal Revenue Code. It allows eligible employees to elect to reduce their salaries to pay for the following benefits on a pretax basis: qualified insurance premiums, medical expenses, and dependent care expenses. Participation in the program has remained relatively constant at approximately 97% of eligible employees in the premium conversion option, 6% in the dependent care account, and 31% in the medical spending account. However, employee salary reductions into the program increased 4.2%, to \$5.0 million, during the fiscal year. The employer FICA savings generated from the salary reductions are sufficient to cover the administrative expenses; therefore, this program remains budget neutral.

The pretax benefits program is accounted for as an expendable trust fund.

**Major Initiatives**

The following is a summary of revisions to the laws governing the System that were passed by the 2001 North Dakota Legislature. All changes will be effective August 1, 2001 unless otherwise noted.

**PERS**

- Multiplier increase from 1.89% to 2.0% for main system and national guard system.
- A benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before the earlier of age 65 or the age at which the Rule of 85 would be met. Previously, the reduction was from age 65.
- 6% benefit adjustment for main system and national guard system retirees, beneficiaries and recipients of disability benefits.
- The normal form of benefit was changed to include an unreduced 50% joint and survivor annuity for the judges retirement system.
- 2% increase for judges' system retirees and beneficiaries on January 1, 2002 and January 1, 2003

**HPRS**

- Multiplier increase from 3.40% to 3.60% for the first 25 years of service.
- Post-retirement increase for retiree and beneficiaries to reflect multiplier increase.
- 6% benefit adjustment for recipients of disability benefits.
- Expanded the service purchase provisions

**Defined Contribution Plan**

- Provide eligible employees with another election window to transfer from the defined benefit plan to the defined contribution plan.

**Financial Information**

The financial statements included in this report are the responsibility of the System's management and have been prepared in accordance with generally accepted accounting principles for governmental accounting and reporting as pronounced or adopted by the Governmental Accounting Standards Board and the Financial Accounting Standards Board. Management is also responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

The expenses of the System are monitored through two budgetary controls. The majority of the administrative expenditures are appropriated each biennium by the North Dakota Legislature; certain statutorily prescribed expenses (including benefit payments, actuarial and consulting fees and audit fees) have received a continuing appropriation from the North Dakota Legislature and are reviewed directly by the System's Board.



### Revenues and Expenses

Investment earnings, together with employee and employer contributions, are the funding sources for the benefits provided through the System. The main expenses of the System are benefit payments and the cost of administering the System. The following tables show the combined revenues and expenses of PERS and HPRS for fiscal years 2001 and 2000:

(Millions) <u>Revenue Type</u>	<u>Fiscal Year</u> <u>2001</u>	<u>Fiscal Year</u> <u>2000</u>	<u>Change</u> <u>in \$'s</u>	<u>Percentage</u> <u>Change</u>
Employee Contributions	\$ 17.8	\$ 17.1	\$ 0.7	4.1%
Employer Contributions	17.9	17.3	0.6	3.5
Investments	<u>-55.0</u>	<u>106.8</u>	<u>-161.8</u>	<u>-151.5</u>
Total	\$ -19.3	\$ 141.2	\$ - 160.5	-113.7%
 <u>Expense Type</u>				
Benefits	\$ 38.3	\$ 35.7	\$ 2.6	7.3%
Refunds and Transfers	4.1	12.5	-8.4	-67.2
Administrative Expenses	<u>0.9</u>	<u>0.8</u>	<u>0.1</u>	<u>12.5</u>
Total	\$ 43.3	\$ 49.0	\$ -5.7	11.6%

Investment earnings decreased from the previous year as a result of the fund experiencing a negative return on investments of -4.12%. Benefit payments are higher than the previous fiscal year because there are more retired members and beneficiaries receiving benefits from the System. Refunds and transfers are lower than last year which is the result of the transfer of \$8.5 million in assets for the employees who elected to join the new optional defined contribution plan in February 2000. Administrative expenses increased over last fiscal year due to an increase in actuary fees to analyze proposed legislation and due to a one-time expense to change the cost for capitalizing equipment from \$750 to \$5,000.

### Funding Status

The funding goal of any retirement system is to accumulate sufficient assets to pay all of its promised benefits as they come due. The annual valuation of the System's assets and liabilities performed by the System's actuary provides the best current estimate of the System's funding status and allows the Board to monitor funding progress.

A common measure of the strength of a pension system is to express the assets as a percentage of liabilities – the greater the percentage, the stronger the funding position of the System. The schedules of funding progress in the Financial Section of this report show both PERS and HPRS to be funded very soundly. The July 1, 2001 actuarial valuation reports the actuarial value of assets for PERS at \$1,115.3 million, which exceeds the actuarial accrued liabilities of \$1,008.7 million by \$106.6 million. The actuarial value of assets for HPRS is \$38.8 million, which exceeds the actuarial accrued liabilities of \$38.1 million by \$.7 million.

### Investments

The North Dakota State Investment Board (SIB) invests the PERS and HPRS funds. Chapter 21-10 of the North Dakota Century Code states that the SIB shall apply the prudent investor rule when investing funds under its supervision. The prudent investor rule means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. All funds must be invested exclusively for the benefit of the System's members and all investments are made in accordance with the System's long-term investment objectives and performance goals.

The combined market value of assets for PERS and HPRS as of June 30, 2001 is \$1.2 billion, the same as the previous year. During the fiscal year ended June 30, 2001, the System's portfolio remained broadly diversified with investments in domestic and international equities, domestic and international fixed income securities, real estate, private equity and cash equivalents. The investment policies, goals and objectives were reviewed and revised by the Retirement Board in July 2000. Revisions to the asset allocation were made to better meet the actuarial assumptions and the goals of the System. No changes were made to the asset categories.

The System assets had a negative annualized rate of return of -4.12% for the fiscal year ended June 30, 2001. The annualized rate of return was 5.07% for the last three years and 10.01% for the last five years.

The assets of the defined contribution retirement plan are invested according to the direction of each participating member. The participant can select from eight investment categories, as provided by the Board. The investment categories are designed to cover a broad range to allow the participant to structure an investment strategy that meets their individual return objectives and risk tolerances. The market value of assets in the defined contribution retirement plan as of June 30, 2001 is \$8.0 million.

More detailed information on investment policies, investment fees, performance results and asset allocation can be found in the Investment Section of this report.

**Independent Audit**

The financial statements contained in this report were audited by the accounting firm of Brady, Martz & Associates PC, under the direction of the North Dakota State Auditor. The auditors' opinion was unqualified for the System for the year ended June 30, 2001.

**Achievement Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the North Dakota Public Employees Retirement System for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2000. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The North Dakota Public Employees Retirement System has received a Certificate of Achievement for the last five consecutive years (fiscal years ended June 30, 1996-2000). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

The System is also a recipient of the Public Pension Principles 2000 Achievement Award. This program, administered by the Public Pension Coordinating Council, covers a two-year period recognizing the professional achievements of public employee retirement systems.

**Acknowledgements**

The preparation of this report is the result of the combined effort of the System's staff. It is intended to provide complete and accurate information concerning the activities and results of operations. This report is being mailed to all employer members of the System. Summary financial information will be distributed to the active and retired PERS membership in the two agency newsletters, *PERSpectives* and *Alternative PERSpectives*. Copies of this report are available to members and other interested parties upon request.

Sincerely,



Sparb Collins  
Executive Director



Sharon Schiermeister, CPA  
Accounting/Information Technology Manager



## THE RETIREMENT BOARD

The Retirement Board is the governing authority of the Public Employees Retirement System and consists of seven persons. A North Dakota citizen who is neither a state or political subdivision employee is appointed by the Governor to serve as Chairman of the Board. A member of the Attorney General's legal staff and the State Health Officer are also appointed to serve on the Board. One Board member is elected by retired PERS members and the remaining three Board members are elected from active employees currently contributing to PERS. Three members of the Retirement Board are included in the membership of the North Dakota State Investment Board (SIB). The Retirement Board has specified that the members who serve on the SIB are to be selected from among the four elected members.

The Board's mission is to design, communicate and efficiently administer a viable employee benefits program within a framework of prudent risk taking, applicable state and federal laws, and professional and ethical standards so as to provide an employee benefit package that is among the best available from public and private employers in the upper midwest.

The Board members, and their respective terms, are as follows:

Joseph Maichel

Chairman

Term expires 6/30/2004

Robert Barnett  
Acting State Health Officer

David Gunkel  
Member elected  
Term expires 6/30/2004

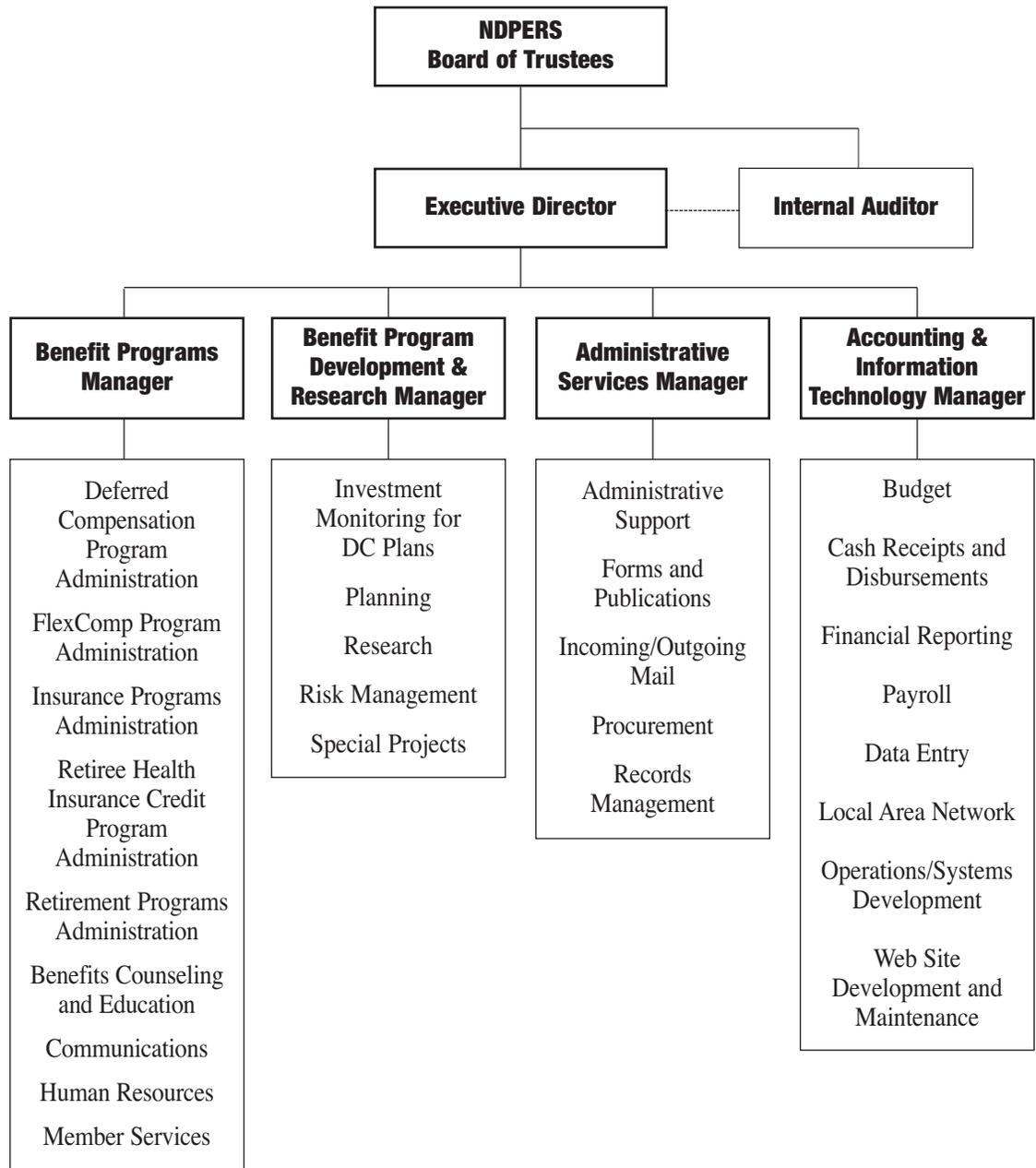
Sandi Tabor  
Attorney General Appointee  
Term expires 12/31/2005

Ronald Leingang  
Member elected  
Term expires 6/30/2002

Weldee Baetsch  
Retiree elected  
Term expires 6/30/2004

Howard Sage  
Member elected  
Term expires 6/30/2003

**ORGANIZATIONAL  
CHART**




---

**ADMINISTRATION**

Sparb Collins, *Executive Director*

Kathy Allen, *Benefit Programs Manager*

Denise Curfman, *Administrative Services Manager*

Jamie Kinsella, CPA, CIA, *Internal Auditor*

Deb Knudsen, *Benefit Program Development and Research Manager*

Sharon Schiermeister, CPA, *Accounting and Information Technology Manager*

---



**Actuary:**

The Segal Company  
Denver, CO

**Auditor:**

Brady, Martz & Associates, P.C.  
Bismarck, ND

**Dental Insurance Carrier:**

ReliaStar  
Minneapolis, MN

**Disability Consultant:**

Mid Dakota Clinic  
Bismarck, ND

**Employee Assistance Program Vendors:**

APS Healthcare Northwest  
Fargo, ND

Medcenter One  
Bismarck, ND

St. Alexius/Heartview  
Bismarck, ND

Village Family Services  
Fargo, ND

**Health Insurance Carrier:**

Blue Cross Blue Shield of North Dakota  
Fargo, ND

**Insurance Consultant:**

Deloitte & Touche LLP  
Minneapolis, MN

**Investment Services:**

North Dakota Retirement & Investment Office  
Bismarck, ND

**Legal Counsel:**

North Dakota Attorney General's Office  
Bismarck, ND

**Life Insurance Carrier:**

ReliaStar  
Minneapolis, MN

**Long Term Care Insurance Carrier:**

UNUM  
Portland, ME

**CONSULTING &  
PROFESSIONAL  
SERVICES**





## FINANCIAL SECTION

The System's retirement assets are held in trust for the purpose of providing retirement benefits in the future. Since these benefits are guaranteed by North Dakota law to each eligible participant, it is the responsibility of the Retirement Board to see that the plans are soundly funded and that a complete accounting is made for all investments, receipts, payments and expenses. In addition to the Public Employees Retirement System, Highway Patrolmen's Retirement System, Defined Contribution Retirement Plan and Retiree Health Insurance Credit Program, the Retirement Board is also responsible for the Uniform Group Insurance Plan, Deferred Compensation Plan and FlexComp program.

To assure that proper accounting methods are being used, the Retirement Board requires an annual independent audit of the assets and liabilities of the System. The audit for the fiscal year ended June 30, 2001, was performed by Brady, Martz & Associates, P.C.. In addition to the annual audit, the System's internal auditor reports on a quarterly basis directly to the Audit Committee of the Retirement Board. This provides the Board with ongoing assurance of the safety of the System's assets.

The audit opinion of the CPA firm follows along with the audited financial statements, accompanying notes and required supplementary information.

**INDEPENDENT  
AUDITOR'S  
REPORT**



CERTIFIED PUBLIC ACCOUNTANTS

Governor John Hoeven  
The Legislative Assembly

Sparb Collins, Executive Director  
Public Employees Retirement System

We have audited the accompanying financial statements and the combining and individual fund financial statements of the Public Employees Retirement System as of and for the years ended June 30, 2001 and 2000. These financial statements and required supplementary information and supporting schedules referred to below are the responsibility of the Public Employees Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Employees Retirement System as of June 30, 2001 and 2000, and the results of its operations and cash flows of its proprietary fund for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds of the Public Employees Retirement System as of June 30, 2001 and 2000, and the results of operations of such funds for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole and on the combining and individual fund financial statements. The financial information listed as required supplementary information in the table of contents is not a required part of the general purpose financial statements but is supplementary information required by the Governmental Accounting Standards Board. The financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The required supplementary information and supporting schedules have been subjected to the auditing procedures applied in our audit of the combined, combining and individual fund financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose, combining and individual fund financial statements taken as a whole.

We did not audit the data included in the introductory, actuarial, investment and statistical sections of this report, and accordingly, we do not express an opinion thereon.

Reports in accordance with Government Auditing Standards, on the Public Employees Retirement System's internal control structure and on compliance with laws and regulations are issued under separate cover.

BRADY, MARTZ & ASSOCIATES, P.C.

*Brady, Martz*

August 24, 2001



**Combined Balance Sheets**  
**All Proprietary and Fiduciary Fund Types and Account Groups**  
**June 30, 2001 and 2000**

	Proprietary Fund Type		Fiduciary Fund Type		Account Groups			
	Enterprise		Trust and Agency		General Fixed Asset		General Long-Term Debt	
	2001	2000	2001	2000	2001	2000	2001	2000
<b>ASSETS AND OTHER DEBITS:</b>								
Assets:								
Cash and cash equivalents	\$2,821,703	\$4,061,941	\$ 1,197,691	\$1,286,458	\$ -	\$ -	\$ -	\$ -
Investments	-	119,373	1,206,428,288	1,270,123,047	-	-	-	-
Invested securities collateral	-	-	79,537,494	117,319,258	-	-	-	-
Contributions receivable	-	-	3,017,179	2,845,020	-	-	-	-
Interest receivable	781	-	4,552,387	5,020,130	-	-	-	-
Accounts receivable	15,713	35,483	326,456	303,015	-	-	-	-
Due from other funds	25,259	19,604	236,057	77,583	-	-	-	-
Due from other state agencies	3,502	5,670	32,521	30,084	-	-	-	-
Equipment (net of depreciation)	-	-	2,513	58,648	-	11,098	-	-
Other debits:								
Amount to be provided for payments on annual leave	-	-	-	-	-	-	16,291	14,779
Total assets and other debits	\$2,866,958	\$ 4,242,071	\$1,295,330,586	\$1,397,063,243	\$ -	\$11,098	\$ 16,291	\$14,779
<b>LIABILITIES, EQUITY &amp; OTHER CREDITS:</b>								
Liabilities:								
Salaries payable	\$ 36,620	\$ 32,950	\$ 53,370	\$ 51,967	\$ -	\$ -	\$ -	-
Accounts payable	17,940	19,467	932,826	1,130,476	-	-	-	-
Due to other funds	178,746	-	82,570	97,187	-	-	-	-
Due to other state agencies	7,799	3,819	15,350	32,977	-	-	-	-
Amounts held in custody for others	761,342	759,309	-	-	-	-	-	-
Securities lending collateral	-	-	79,537,494	117,319,258	-	-	-	-
Deferred premiums	55,223	58,601	-	-	-	-	-	-
Capital lease payable	-	-	2,066	8,019	-	-	-	-
Accrued annual leave	38,500	36,467	40,011	35,371	-	-	16,291	14,779
Total liabilities	1,096,170	910,613	80,663,687	118,675,255	-	-	16,291	14,779
Equity and other credits:								
Investment in equipment	-	-	-	-	-	11,098	-	-
Reserved retained earnings	1,770,788	3,331,458	-	-	-	-	-	-
Fund balances:								
Reserved:								
Employees Retirement System	-	-	1,206,264,364	1,270,944,570	-	-	-	-
Unreserved:								
Designated for trust purposes	-	-	8,402,535	7,443,418	-	-	-	-
Total equity	1,770,788	3,331,458	1,214,666,899	1,278,387,988	-	11,098	-	-
Total liabilities, equity and other credits	\$ 2,866,958	\$4,242,071	\$ 1,295,330,586	\$1,397,063,243	\$ -	\$11,098	\$ 16,291	\$14,779

*The accompanying notes are an integral part of these financial statements.*

**Statements of Revenues, Expenses and Changes in Retained Earnings –  
Enterprise Fund**  
For the fiscal years ended June 30, 2001 and 2000

	2001	2000
<b>OPERATING REVENUE:</b>		
Administrative Fee	\$ 755,221	\$ 734,203
Total Operating Revenues	<u>755,221</u>	<u>734,203</u>
<b>OPERATING EXPENSES:</b>		
Salaries and Wages	392,724	358,565
Operating Expenses	114,968	130,745
Professional Fees	52,293	43,700
Data Processing	31,549	31,451
Premium Reduction Expenses	<u>2,031,203</u>	<u>-</u>
Total Operating Expenses	<u>2,622,737</u>	<u>564,461</u>
Operating Income (Loss)	<u>(1,867,516)</u>	<u>169,742</u>
<b>NONOPERATING REVENUES:</b>		
Investment Income	<u>306,846</u>	<u>261,236</u>
Net Income (Loss)	<u>(1,560,670)</u>	<u>430,978</u>
Reserved Retained Earnings - July 1	<u>3,331,458</u>	<u>2,900,480</u>
Reserved Retained Earnings - June 30	<u>\$ 1,770,788</u>	<u>\$ 3,331,458</u>

*The accompanying notes are an integral part of these financial statements.*



**Combined Statements of Revenues, Expenditures and Changes in Fund Balance –  
Expendable Trust Fund  
For the fiscal years ended June 30, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
<b>REVENUES:</b>		
FICA Tax Savings	\$ 385,025	\$ 364,951
Investment Earnings	(773,819)	646,728
Employee Contributions	<u>5,730,677</u>	<u>4,582,690</u>
Total Revenues	<u>5,341,883</u>	<u>5,594,369</u>
<b>EXPENDITURES:</b>		
Employee Withdrawals	119,049	43,067
Administrative Expenditures	319,424	489,790
Flex Comp Expenditures	<u>3,864,797</u>	<u>3,774,075</u>
Total Expenditures	<u>4,303,270</u>	<u>4,306,932</u>
Revenue Over Expenditures Before Other Financing Sources (Uses)	1,038,613	1,287,437
Other Financing Sources (Uses)		
Operating Transfer In	218,374	300,635
Operating Transfer Out	<u>(297,870)</u>	<u>(536,487)</u>
Revenue Over Expenditures	959,117	1,051,585
Fund Balances – July 1	<u>7,443,418</u>	<u>6,391,833</u>
Fund Balances – June 30	<u>\$ 8,402,535</u>	<u>\$ 7,443,418</u>

*The accompanying notes are an integral part of these financial statements.*

## Combining Statements of Net Plan Assets – All Pension Trust Funds

June 30, 2001 and 2000

	Public Employees Retirement System		Highway Patrolmen's Retirement System		Retiree Health Insurance Credit Fund		Defined Contribution Retirement Fund		Totals	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
<b>ASSETS:</b>										
Cash	\$ 794,322	\$ 930,495	\$ -	\$ -	\$ 30,339	\$ 34,638	\$ -	\$ -	\$ 824,661	\$ 965,133
Receivables:										
Contributions receivable	2,634,601	2,487,588	-	-	311,865	294,134	70,713	63,298	3,017,179	2,845,020
Interest receivable	4,383,537	4,850,250	152,830	169,837	16,020	43	-	-	4,552,387	5,020,130
Accounts receivable	362	913	-	-	-	-	1,196	-	1,558	913
Due from other funds	224,697	63,530	-	-	-	-	-	-	224,697	63,530
Due from other state agencies	932	462	-	-	-	-	-	-	932	462
Total receivables	7,244,129	7,402,743	152,830	169,837	327,885	294,177	71,909	63,298	7,796,753	7,930,055
Investments, at fair value:										
Domestic equities	-	-	-	-	12,115,841	12,451,220	5,508,672	5,941,136	17,624,513	18,392,356
International equities	-	-	-	-	3,524,162	3,129,272	478,814	909,811	4,002,976	4,039,083
International equity pool	140,501,557	139,426,782	4,898,649	4,882,413	-	-	-	-	145,400,206	144,309,195
Domestic equity pool	433,710,477	485,923,820	15,121,509	17,015,961	-	-	-	-	448,831,986	502,939,781
Fixed income	56,367,221	21,494,274	1,965,268	752,681	8,646,630	10,271,748	2,024,626	1,770,831	69,003,745	34,289,534
International fixed income pool	57,044,601	46,772,940	1,988,885	1,637,883	-	-	-	-	59,033,486	48,410,823
Domestic fixed income pool	316,893,201	392,139,660	11,048,622	13,731,851	-	-	-	-	327,941,823	405,871,511
Certificates of deposit	14,596,666	16,244,199	508,919	568,835	-	-	-	-	15,105,585	16,813,034
Real estate pool	65,541,911	58,737,593	2,285,148	2,056,859	-	-	-	-	67,827,059	60,794,452
Private Equity	1,164,494	4,038,297	40,600	141,412	-	-	-	-	1,205,094	4,179,709
Private Equity Pool	38,449,115	21,415,912	1,340,546	749,937	-	-	-	-	39,789,661	22,165,849
Short-term investment fund	2,875,448	1,064,230	100,254	37,268	-	-	-	-	2,975,702	1,101,498
Total investments	1,127,144,691	1,187,257,707	39,298,400	41,575,100	24,286,633	25,852,240	8,012,112	8,621,778	1,198,741,836	1,263,306,825
Invested securities lending collateral	76,857,812	113,349,996	2,679,682	3,969,262	-	-	-	-	79,537,494	117,319,258
Equipment (net of accumulated depreciation)	2,513	58,648	-	-	-	-	-	-	2,513	58,648
Total assets	1,212,043,467	1,308,999,589	42,130,912	45,714,199	24,644,857	26,181,055	8,084,021	8,685,076	1,286,903,257	1,389,579,919
<b>LIABILITIES:</b>										
Salaries payable	37,863	33,285	-	-	-	-	-	3,261	37,863	36,546
Accounts payable	915,619	1,094,658	-	-	10,970	12,436	-	6,875	926,589	1,113,969
Due to other funds	-	-	8,836	18,832	73,732	78,355	-	-	82,568	97,187
Due to other state agencies	11,134	24,311	-	-	896	634	272	54	12,302	24,999
Securities lending collateral	76,857,812	113,349,996	2,679,682	3,969,262	-	-	-	-	79,537,494	117,319,258
Accrued annual leave	40,011	35,371	-	-	-	-	-	-	40,011	35,371
Capital lease payable	2,066	8,019	-	-	-	-	-	-	2,066	8,019
Total liabilities	77,864,505	114,545,640	2,688,518	3,988,094	85,598	91,425	272	10,190	80,638,893	118,635,349
<b>NET ASSETS HELD IN TRUST:</b>										
Net assets held in trust for pension benefits	1,134,178,962	1,194,453,949	39,442,394	41,726,105	-	-	8,083,749	8,674,886	1,181,705,105	1,244,854,940
Net assets held in trust for postemployment Healthcare benefits	-	-	-	-	24,559,259	26,089,630	-	-	24,559,259	26,089,630
(A schedule of pension funding progress for each plan is presented on page 36)										
Total net assets held in trust	\$1,134,178,962	\$1,194,453,949	\$ 39,442,394	\$41,726,105	\$24,559,259	\$26,089,630	\$ 8,083,749	\$8,674,886	\$1,206,264,364	\$1,270,944,570

The accompanying notes are an integral part of these financial statements.

**Combining Statements of Changes in Net Plan Assets – All Pension Trust Funds**  
For the years ended June 30, 2001 and 2000

	Public Employees Retirement System		Highway Patrolmen's Retirement System		Retiree Health Insurance Credit Fund		Defined Contribution Retirement Fund		Totals	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
<b>ADDITIONS:</b>										
Contributions:										
From Employer	\$ 17,101,628	\$ 16,521,248	\$ 788,125	\$ 741,089	\$ 4,191,541	\$ 3,992,189	\$ 394,746	\$ 198,077	\$ 22,476,040	\$ 21,452,603
From Employee	16,273,260	15,693,237	486,332	457,079	9,219	3,246	383,248	192,307	17,152,059	16,345,869
From Other Plans	-	-	-	-	-	-	88,699	8,544,005	88,699	8,544,005
From pretax benefits fund	-	-	-	-	-	-	79,496	235,852	79,496	235,852
Total contributions	33,374,888	32,214,485	1,274,457	1,198,168	4,200,760	3,995,435	946,189	9,170,241	39,796,294	46,578,329
Investment income:										
Net increase (decrease) in fair value of investments	(92,804,057)	68,101,931	(3,262,862)	2,375,276	(2,759,737)	1,291,045	(1,735,091)	(236,486)	(100,561,747)	71,531,766
Interest and dividends	43,366,370	38,478,430	1,519,292	1,345,421	672,923	860,741	508,841	181,546	46,067,426	40,866,138
Less investment expense	(3,969,380)	(3,684,724)	(139,099)	(128,902)	(53,043)	(51,548)	(11,845)	(12)	(4,173,367)	(3,865,186)
Net investment income	(53,407,067)	102,895,637	(1,882,669)	3,591,795	(2,139,857)	2,100,238	(1,238,095)	(54,952)	(58,667,688)	108,532,718
Securities lending activity:										
Securities lending income	5,976,653	5,706,923	209,475	199,672	-	-	-	-	6,186,128	5,906,595
Less securities lending expenses	(5,684,889)	(5,371,876)	(199,255)	(187,951)	-	-	-	-	(5,884,144)	(5,559,827)
Net securities lending income	291,764	335,047	10,220	11,721	-	-	-	-	301,984	346,768
Purchased service credit	1,080,008	925,534	-	-	77,669	73,929	-	-	1,157,677	999,463
Miscellaneous income	7,570	10,530	60	65	-	-	6,020	-	13,650	10,595
Total additions	(18,652,837)	136,381,233	(597,932)	4,801,749	2,138,572	6,169,602	(285,886)	9,115,289	(17,398,083)	156,467,873
<b>DEDUCTIONS:</b>										
Benefits paid to participants	36,676,998	34,026,828	1,660,303	1,629,020	-	-	230,848	194,361	38,568,149	35,850,209
Refunds	3,735,354	3,852,102	10,994	6,576	2,623	1,712	-	-	3,748,971	3,860,390
Prefunded credit applied	-	-	-	-	3,598,019	3,409,471	-	-	3,598,019	3,409,471
Transfers to other plans	314,930	8,693,091	-	-	-	-	-	-	314,930	8,693,091
Administrative expenses	40,727,282	46,572,021	1,671,297	1,635,596	3,600,642	3,411,183	230,848	194,361	46,230,069	51,813,161
Total deductions	894,868	800,529	14,482	13,821	68,301	85,061	74,403	246,042	1,052,054	1,145,453
Net increase (decrease)	41,622,150	47,372,550	1,685,779	1,649,417	3,668,943	3,496,244	305,251	440,403	47,282,123	52,958,614
Net increase (decrease)	(60,274,987)	89,008,683	(2,283,711)	3,152,332	(1,530,371)	2,673,358	(591,137)	8,674,886	(64,680,206)	103,509,259
Net assets held in trust for pension and post-employment healthcare benefits:										
Beginning of year	1,194,453,949	1,105,445,266	41,726,105	38,573,773	26,089,630	23,416,272	8,674,886	-	1,270,944,570	1,167,435,311
End of year	\$ 1,134,178,962	\$ 1,194,453,949	\$ 39,442,394	\$ 41,726,105	\$ 24,559,259	\$ 26,089,630	\$ 8,083,749	\$ 8,674,886	\$ 1,206,264,364	\$ 1,270,944,570

*The accompanying notes are an integral part of these financial statements.*

**Statements of Cash Flows – Enterprise Fund**  
**For the fiscal years ended June 30, 2001 and 2000**

	2001	2000
Cash Flows From Operating Activities:		
Operating Income (Loss)	\$ (1,867,516)	\$ 169,742
Adjustments To Reconcile Operating (Loss) To Net Cash Used By Operating Activities:		
Premiums Collected and BCBS Surplus Used	86,262,973	85,815,135
Premiums Paid	(86,262,973)	(85,815,135)
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable	19,770	39,051
Increase in Due From Other Funds	(5,655)	(1,740)
(Increase) Decrease in Due From Other State Agencies	2,168	(4,461)
Increase in Salaries Payable	3,670	4,941
Increase in Accrued Annual Leave	2,033	5,493
Decrease in Accounts Payable	(1,527)	(2,367)
Increase (Decrease) in Due To Other State Agencies	3,980	(2,786)
Increase (Decrease) in Amounts Held in Custody for Others	2,033	(3,405,799)
Increase (Decrease) in Due To Other Funds	178,746	(24,246)
Increase (Decrease) in Deferred Premiums	(3,378)	9,357
Total Adjustments	<u>201,840</u>	<u>(3,382,557)</u>
Net Cash Used By Operating Activities	(1,665,676)	(3,212,815)
Cash Flows From Investing Activities:		
Sale (purchase) of Investments	119,373	(119,373)
Investment Income	<u>306,065</u>	<u>261,236</u>
Net Cash from Investing Activities	<u>425,438</u>	<u>141,863</u>
Net Decrease in Cash and Cash Equivalents	(1,240,238)	(3,070,952)
Cash and Cash Equivalents Balance – Beginning of Year	<u>4,061,941</u>	<u>7,132,893</u>
Cash and Cash Equivalents Balance – End of Year	<u>\$ 2,821,703</u>	<u>\$ 4,061,941</u>

*The accompanying notes are an integral part of these financial statements.*



**Statement of Appropriations**  
**For the biennium ended June 30, 2001**

	Approved 1999-2001 Appropriation	1999-2001 Appropriation Adjustments	Adjusted 1999-2001 Appropriation	Expenditures 2000	Expenditures 2001	Unexpended Appropriation
<b>All Fund Types:</b>						
Salaries and wages	\$ 1,818,176	\$ 43,043	\$ 1,861,219	\$ 889,131	\$ 955,019	\$ 17,069
Operating Expenses	1,222,052	25,000	1,247,052	728,402	511,127	7,523
Equipment	7,500	-	7,500	7,422	-	78
Contingency	25,000	(25,000)	-	-	-	-
Defined Contribution Plan	197,000	-	197,000	137,405	50,964	8,631
Employer vesting	87,181	-	87,181	50,811	33,795	2,575
Total	<u>\$ 3,356,909</u>	<u>\$ 43,043</u>	<u>\$ 3,399,952</u>	<u>\$ 1,813,171</u>	<u>1,550,905</u>	<u>\$ 35,876</u>

**Reconciliation of Administrative Expenses to Appropriated Expenditures**

	<u>2001</u>	<u>2000</u>
Administrative expenses as reflected in the financial statements		
Pension Trust Funds	\$ 1,052,054	\$ 1,145,453
Expendable Trust Funds	319,424	489,790
Enterprise Funds	<u>591,534</u>	<u>564,461</u>
Total Administrative Expenses	1,963,012	2,199,704
Plus:		
Equipment Purchases	-	24,259
Lease Payments (Net of Interest)	5,953	5,603
Contributions Short and Long	517	49
Less:		
Professional Fees – Not including legal fees which are appropriated	(347,576)	(377,588)
Depreciation Expenses	(15,519)	(16,516)
Allocated Depreciation Charged as Equipment Rent to Other Programs	(7,852)	(8,351)
Changes in Annual Leave	(6,674)	(13,777)
FLex Comp FICA Payments	(340)	(36)
Bank Supply Charges	-	(176)
Change in Fixed Asset Capitalization Limit	<u>(40,616)</u>	<u>-</u>
Total Appropriated Expenditures	<u>\$ 1,550,905</u>	<u>\$ 1,813,171</u>

*The accompanying notes are an integral part of these financial statements.*

## NOTES TO FINANCIAL STATEMENTS

June 30, 2001 & 2000

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A) Financial Statements and Reporting Entity

The accompanying financial statements of the Public Employees Retirement System (System) have been prepared in conformity with accounting principles generally accepted in the United States of America. These financial statements represent the financial status, results of operations and changes in financial status of the System for the fiscal years ended June 30, 2001 and 2000.

For financial reporting purposes, the System has included all funds, and has considered all potential component units for which the System is financially accountable, and other organizations for which the nature and significance of their relationship with the System are such that exclusion would cause the System's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the System to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the System.

Based upon these criteria, there are no component units to be included within the System as a reporting entity and the System is part of the State of North Dakota as a reporting entity.

#### B) Fund Structure and Basis of Accounting

The financial activities of the System reported in the accompanying statements are classified into two fund categories and account groups. The fund categories are proprietary funds and fiduciary funds and the account groups are General Fixed Assets and General Long-Term Debt.

The System follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for governmental entities. In accordance with GASB Statement No. 20, the System follows all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with GASB pronouncements.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary and pension trust funds are accounted for on a flow of economic resources measurement focus. This measurement focus includes all assets and liabilities associated with the operations of these funds on the balance sheet. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets (General Fixed Assets Account Group) and liabilities (General Long-Term Debt Account Group). These long-term assets and liabilities are not recorded in the funds because they do not directly affect expendable available financial resources. The proprietary fund operating statement presents increases and decreases in net total assets. The expendable trust fund is accounted for using a current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. The operating statement for the fund presents increases and decreases in net current assets.

The proprietary fund type is an Enterprise Fund which is used to account for the operations of the Uniform Group Insurance Program. The System has been given the responsibility to manage this public entity risk pool. The Uniform Group Insurance Program is an insurance purchasing pool which provides the employees of the State of North Dakota, or any of its political subdivisions, institutions, departments, or agencies, economies of scale in purchasing health, life, dental and long-term care insurance. Since there is no pooling of risk, the disclosures relating to public entity risk pools are not applicable. Accordingly, this enterprise fund only reports administrative revenues and expenses. The proprietary fund is accounted for on the accrual basis of accounting. In accordance with the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

The retained earnings of the enterprise fund are reserved as North Dakota Century Code 54-52.1-06 requires that any excess amounts received or earned by the program must be used to reduce the amount of premium amounts paid monthly by the enrolled eligible employees or to provide increased insurance coverage.



The fiduciary fund type consists of Trust Funds which are used to account for assets held by the department in a trust capacity. These funds include:

1. Pension Trust Funds – Used to account for the activities of the Public Employees Retirement System, the Highway Patrolmen’s Retirement System, the Retiree Health Insurance Credit Fund and the Defined Contribution Retirement Plan.
2. Expendable Trust Fund – Used to account for the activities of trusts whose principal and income may be used for purposes of the trust. The System’s expendable trust fund consists of the Pretax Benefits Program and the Deferred Compensation Plan.

The Pension Trust Funds are accounted for on the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each system.

Expendable Trust Funds are accounted for on the modified accrual basis of accounting. In accordance with this basis, revenues are recognized when they become susceptible to accrual; that is when they become both measurable and available to finance expenditures of the current period. “Available” means that amounts are due and collectible within the current period or soon enough thereafter (within 30 days) to be used to pay liabilities of the current period. System member contributions are recognized in the period in which the contributions are due. Expenditures are recognized when the related fund liability is incurred.

The General Fixed Asset Account Group is used to account for equipment of the Expendable Trust Funds. Fixed assets of the Pension Trust Funds are accounted for separately in their respective funds.

The General Long-Term Debt Account Group is used to account for the accrued annual leave of the Expendable Trust Funds. Long-term obligations of the proprietary and Pension Trust Funds are accounted for in their respective funds.

### C) Budgetary Process

The System operates through a biennial appropriation provided by the State Legislature. The

System prepares a biennial budget on the modified accrual basis, which is included in the Governor’s budget that is presented to the General Assembly at the beginning of each legislative session. The General Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. Before signing the appropriation bills, the Governor has line item veto powers over legislation, subject to legislative override. Once passed and signed, the appropriation becomes the system’s financial plan for the next two years. Changes to the appropriation are subject to approval by the Emergency Commission.

The State’s budgeting system does not include revenues, thus, a Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual statement cannot be prepared as required by accounting principles generally accepted in the United States of America. In its place a Statement of Appropriations has been presented. The Statement of Appropriations has been prepared using the modified accrual basis. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the North Dakota Century Code (NDCC), Section 54-44.1-11. Expenditures not subject to appropriation of a specific amount include professional fees (not including legal fees), depreciation expense, benefits and refunds paid to participants, prefunded credits applied and employee reimbursements in the Flexcomp Program.

There were no supplemental appropriations during the fiscal year ending June 30, 2001.

During the fiscal year ending June 30, 2000 there was a supplemental appropriation for a market/equity salary adjustment provided by the legislature.

Encumbrances, which represent commitments related to unperformed contracts for goods or services, have not been recorded in the financial statements, as encumbrance accounting is not utilized. The legal level of budgetary control is at the appropriation and expenditure line item level, with administrative controls established at lower levels of detail in certain instances.

### D) Cash and Investments

Cash and cash equivalents for reporting purposes, includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value

because of changes in interest rates. This includes investments with original maturity of three months or less. Investments are stated at fair value. Fair value is, “the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than a forced liquidation sale.” Fair value was determined by reference to published market data for publicly traded securities or through the use of independent valuation services and appraisers for other investments. All investments of the fund, except for the Defined Contribution Retirement Plan are to be made by the North Dakota Retirement and Investment Office (RIO). Chapter 21-10-07 of the North Dakota Century Code requires that all investments made by this state agency, be made using the prudent investor rule. Investments of the Defined Contribution Retirement Plan are participant directed and are held by Fidelity Investments.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expense of the fund, except for the Defined Contribution Retirement Plan consists of those administrative expenses directly related to the RIO investment operations. Investment expense of the Defined Contribution Retirement Plan consists of administrative expenses directly related to the plan.

#### *Securities Lending*

GASB Statement No. 28, “Accounting and Financial Reporting for Securities Lending Transactions,” establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

Securities are loaned versus collateral that may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102 percent of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105 percent of the

market value of the securities plus any accrued interest.

For securities loaned at year end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System.

Types of securities used for lending purposes are equity securities and bonds and notes.

Non-cash collateral cannot be pledged or sold unless the borrower defaults.

All securities loans can be terminated on demand by either the lender or the borrower, although the average term of overall loans is 36 days.

Cash open collateral is invested in a short term investment pool, the Core USA Collateral Section, which had an average weighted maturity of 34 days as of this statement date. Cash collateral may also be invested separately in “term loans”, in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent.

There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

Indemnification deals with the situation in which a client’s securities are not returned due to the insolvency of a borrower and Northern Trust (custodian of investments for RIO) has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust’s responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. Northern Trust indemnifies the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay income distributions on them.



### *Derivative Securities*

The System's investment policy allows investment managers to use derivative securities. Managers are specifically permitted to use Treasury futures and options, S & P 500 index futures and options, and currency forwards and futures to hedge portfolio risk, but not to speculate or to leverage the portfolio. Managers may use their discretion to use other derivatives to enhance returns, reduce risk, or facilitate the management of index funds. The System's policy with respect to these derivatives is that their use may not increase the credit, market or legal risk level associated with a fully invested portfolio of common stocks or fixed income obligations, depending on the manager's designated role.

### **E) Accounts Receivable**

Accounts receivable primarily include amounts due for contributions, insurance premiums, employee pretax benefit deductions and accrued interest on investments.

### **F) Fixed Assets and Depreciation**

Fixed assets are presented in the accompanying financial statements at cost or estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. Fixed assets acquired via lease agreements are capitalized at the inception of the agreement. For the year ending June 30, 2000 the system capitalizes equipment costing over \$750. For the year ending June 30, 2001 the System capitalizes equipment costing over \$5,000 in accordance with Section 54-27-21 of the North Dakota Century Code.

Fixed assets acquired by the Pension Trust Funds are reported in those funds. The fixed assets are depreciated on a straight-line basis over estimated useful lives ranging from 5 to 10 years.

### **G) Accumulated Unpaid Vacation and Sick Pay**

Annual leave is a part of permanent employees compensation as set forth in Section 54-06-14 of the North Dakota Century Code. Employees are entitled to earn annual leave based on tenure of employment, within a range of a minimum of one working day per month of employment, to a maximum of two working days per month of employment, to be fixed by rules and regulations adopted by the employing unit. No more than 240 hours of annual leave may be carried forward beyond March 31st of each year. Employees are paid for unused annual leave upon termination or retirement. Permanent employees accrue sick leave from the first day of employment at the rate of eight hours per month with unlimited accumula-

tion. Employees with at least 10 years of state employment are paid one-tenth of their accumulated sick leave under Section 54-06-14 of the North Dakota Century Code when the employee leaves the employ of the state.

The system's liability for accumulated unpaid leave is reported in the applicable funds except for the expendable trust fund which is reported in the General Long-Term Debt Account Group.

### **H) Deferred Contributions / Premiums**

Deferred contributions consist of monies collected from participating employers, for retirement contributions, before the contributions are due. Deferred premiums consist of monies collected by the System from individuals or participating employers, for insurance premiums, before the premiums are due.

### **I) Transfers To Other Plans**

Transfers to other plans consist of monies transferred to other alternative retirement programs in accordance with Section 15-10-17 Subsection 13 of the North Dakota Century Code. Employees of institutions under the control of higher education who are members of the Public Employees Retirement System and become entitled to participate in the alternate retirement program are entitled to have an annuity purchased from the employee and employer contributions and related interest from the Public Employees Retirement System in lieu of any other rights under the Public Employees Retirement System.

Transfers to other plans also consist of monies transferred from the Public Employees Retirement System Defined Benefit Plan to the Defined Contribution Retirement Plan pursuant to Section 54-52.6 Subsection 3 of the North Dakota Century Code. Each eligible employee who elects to terminate membership in the Defined Benefit Plan has a lump sum amount transferred to the participating member's account under the Defined Contribution Retirement Plan. For employees electing to transfer to the Defined Contribution Retirement Plan prior to December 31, 1999, the lump sum was the higher of the actuarial present value of accrued benefits or actual employee and employer contributions plus interest. For new employees electing to transfer to the Defined Contribution Retirement Plan, the lump sum transferred is the actual employee and employer contributions plus interest.

## NOTE 2 DEPOSITS AND INVESTMENTS

### DEPOSITS:

The following summary presents the amount of the System's deposits which are fully insured or collateralized with securities held by the System or by its agent in the System's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the System's name (Category 2) and those deposits which are not collateralized or are collateralized by the pledging financial institution's trust department or agent, but not in the System's name (Category 3) at June 30, 2001 and 2000. Funds deposited in the Bank of North Dakota are guaranteed by the state of North Dakota (North Dakota Century Code Section 6-09-10).

At June 30, 2001 and 2000, the carrying amount of the System's cash deposits were \$18,246,953 and \$18,857,564 and the bank balances were \$18,528,713 and \$19,185,423. Included in these amounts were certificates of deposit recorded as investments with a carrying value and bank balances of \$15,105,585 and \$16,813,034 at June 30, 2001 and 2000. All of the System's deposits are uncollateralized, a class three risk as defined by the Government Accounting Standards Board.

### INVESTMENTS:

#### *Risk Categories:*

Governmental Accounting Standards Board (GASB) Statement No. 3 entitled "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires certain financial statement disclosure of deposits and investments such as the disclosure of carrying amounts by type of investment and classification into one of three categories based upon credit risk.

Category (1) includes investments insured or registered or securities held by the System or its agent in the System's name. Category (2) includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in System's name. Category (3) includes investments uninsured and unregistered with securities held by the counterparty, or by its trust department or agent, but not in System's name.

The guaranteed investment contracts with Blue Cross Blue Shield and ReliaStar are not subject to credit risk requirements and are shown as cash and cash equivalents on the financial statements.

All investments of the fund, except for the defined contribution retirement plan, are to be made by RIO. Investments of the Public Employees Retirement System and the Highway Patrolmen's Retirement System are commingled and invested. Earnings on the investments and expenses related to administering the plans are allocated to each plan based on their percentage of ownership or number of participants. The System's investments are pooled with other state investments and managed by the North Dakota Retirement and Investment Office. All pooled investments subject to credit risk classification at the Retirement and Investment Office are categorized in Category 1. These investments include the equity securities, the bonds and notes and the private equity pool.

Those investments not subject to credit risk classification are the mutual funds, guaranteed investment contracts, the real estate pool, the private equity, the short-term investment fund, the deferred compensation plans, and the securities lending short-term collateral investment pool.

The Public Employees Retirement System Board, or vendors contracted for by the board, has exclusive authority to invest and manage the assets of the defined contribution retirement plan. State statute allows each participating member to direct the investment of the individual's employer and employee contributions and earnings to one or more investment options within the available categories of investment as established by the Board. The following investments represent 5 percent or more of net plan assets at June 30, 2001:

Fidelity Growth Company Mutual Fund	20.15%
Fidelity Managed Income Portfolio Mutual Fund	19.29%
Fidelity Freedom 2020 Mutual Fund	9.69%
Fidelity Freedom 2010 Mutual Fund	8.40%
Fidelity Spartan 500 Index Mutual Fund	8.40%
Fidelity Equity Income Mutual Fund	8.07%
Alger Small Cap Retirement Mutual Fund	7.27%
Fidelity Diversified International Mutual Fund	5.98%
Pimco Total Return Admin Mutual Fund	5.34%



Total investments of the System at fair value as of June 30, 2001 and 2000 consisted of the following:

<u>June 30, 2001</u>	<u>Fair Value</u>
Equity Securities	\$ 609,872,194
Bonds and Notes	453,954,428
Mutual Funds	8,012,112
Guaranteed Investment Contracts	878,026
Real Estate Pool	67,827,059
Private Equity	1,205,094
Private Equity Pool	39,789,661
Short-Term Investment Fund	2,975,702
Deferred Compensation Plans:	
Annuities	356,003
Mutual Funds	7,330,449
Securities Lending Short-Term Collateral Investment Pool	<u>79,537,494</u>
	<u>\$ 1,271,738,222</u>

<u>June 30, 2000</u>	<u>Fair Value</u>
Equity Securities	\$ 662,829,468
Bonds and Notes	486,801,037
Mutual Funds	8,621,778
Guaranteed Investment Contracts	3,303,869
Real Estate Pool	60,794,452
Private Equity	4,179,709
Private Equity Pool	22,165,849
Short-Term Investment Fund	1,220,871
Deferred Compensation Plans:	
Annuities	261,896
Mutual Funds	6,554,326
Securities Lending Short-Term Collateral Investment Pool	<u>117,319,258</u>
	<u>\$ 1,374,052,513</u>

The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of plan investments and unrealized gains and losses on investments sold in the current year that had been held for more than one year were included in the net increase (decrease) reported in the prior year(s) and the current year.

**NOTE 3  
INTERFUND AND STATE AGENCY  
TRANSACTIONS**

The June 30, 2001 interfund due from/to other funds are summarized as follows:

Fund Type / Fund	Due From Other Funds	Due To Other Funds
<b>Pension Trust:</b>		
PERS	\$ 224,697	\$ -
Highway Patrol Retirement	-	8,836
Retiree Health Insurance Credit Fund	-	73,732
Enterprise	25,259	178,746
<b>Expendable Trust:</b>		
Pretax Benefit Program	<u>11,360</u>	<u>2</u>
	<u>\$ 261,316</u>	<u>\$ 261,316</u>

The June 30, 2000 interfund due from/to other funds are summarized as follows:

Fund Type / Fund	Due From Other Funds	Due To Other Funds
<b>Pension Trust:</b>		
PERS	\$ 63,530	\$ -
Highway Patrol Retirement	-	18,832
Retiree Health Insurance Credit Fund	-	78,355
Enterprise	19,604	-
<b>Expendable Trust:</b>		
Pretax Benefit Program	<u>14,053</u>	<u>-</u>
	<u>\$ 97,187</u>	<u>\$ 97,187</u>

The June 30, 2001 due from/to state agencies are summarized as follows:

Fund Type / Fund	Due From State Agencies	Due To State Agencies
<b>Public Employees Retirement Fund:</b>		
OMB Central	\$ 193	\$ -
Human Services	714	-
Banking and Finance	25	-
State Investment Board	-	6,402
ITD	-	2,836
DOT	-	82
Facilities Management	-	6
Attorney General	-	330
PERS	-	175
Central Duplicating	-	1,303
Total	<u>\$ 932</u>	<u>\$ 11,134</u>

**Prefunded Retiree Health Program:**

State Investment Board	<u>\$ -</u>	<u>\$ 896</u>
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**Defined Contribution:**

ITD	\$ -	\$ 261
Attorney General	-	11
Total	<u>\$ -</u>	<u>\$ 272</u>

**PERS Group Insurance:**

State Library	\$ 350	\$ -
Human Services	1,403	-
Health Department	350	-
Workers Comp. Bureau	350	-
PERS	350	-
State Courts	350	-
Insurance Department	349	-
ITD	-	6,758
DOT	-	180
Facilities Management	-	5
Attorney General	-	498
PERS	-	175
Central Duplicating	-	183
Total	<u>\$ 3,502</u>	<u>\$ 7,799</u>

**Flex Program:**

OMB Central	\$ 31,589	\$ -
ITD	-	488
Facilities Management	-	1
Attorney General	-	51
Central Duplicating	-	203
Total	<u>\$ 31,589</u>	<u>\$ 743</u>

**Deferred Comp:**

ITD	\$ -	\$ 112
DOT	-	48
Facilities Management	-	1
Attorney General	-	157
General Fund	-	1,950
Central Duplicating	-	37
Total	<u>\$ -</u>	<u>\$ 2,305</u>

The June 30, 2000 due from/to state agencies are summarized as follows:

Fund Type / Fund	Due From State Agencies	Due To State Agencies
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**Public Employees Retirement Fund:**

OMB Central	\$ 219	\$ -
Human Services	243	-
State Investment Board	-	1,715
ITD	-	20,830
DOT	-	88
Facilities Management	-	9
Attorney General	-	1,062
Central Duplicating	-	607
Total	<u>\$ 462</u>	<u>\$24,311</u>

**Prefunded Retiree Health Program:**

State Investment Board	\$ -	\$ 634
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**Defined Contribution:**

ITD	\$ -	\$ 26
Attorney General	-	28
Total	<u>\$ -</u>	<u>\$ 54</u>

**PERS Group Insurance:**

OMB Central	\$ 1,457	\$ -
Human Services	2,107	-
Department of Corrections	703	-
Adjutant General	1,053	-
Water Commission	350	-
ITD	-	3,016
DOT	-	40
Facilities Management	-	8
Attorney General	-	470
Central Duplicating	-	285
Total	<u>\$ 5,670</u>	<u>\$ 3,819</u>

**Flex Program:**

OMB Central	\$29,622	\$ -
ITD	-	198
Facilities Management	-	2
Attorney General	-	39
Central Duplicating	-	649
Total	<u>\$29,622</u>	<u>\$ 888</u>

**Deferred Comp:**

ITD	\$ -	\$ 6,626
DOT	-	79
Facilities Management	-	2
Attorney General	-	325
Central Duplicating	-	58
Total	<u>\$ -</u>	<u>\$ 7,090</u>

The June 30, 2001 operating transfers in/out are summarized as follows:

Fund Type / Fund	Operating Transfer In	Operating Transfer Out
<b>Expendable Trust Fund:</b>		
Deferred Compensation	\$ 218,374	\$ -
Pretax Benefits	-	297,870

**Pension Trust Fund:**

Defined Contribution Retirement Fund	\$ 79,496	\$ -
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The June 30, 2000 operating transfers in/out are summarized as follows:

Fund Type / Fund	Operating Transfer In	Operating Transfer Out
<b>Expendable Trust Fund:</b>		
Deferred Compensation	\$ 300,635	\$ -
Pretax Benefits	-	536,487

**Pension Trust Fund:**

Defined Contribution Retirement Fund	\$ 235,852	\$ -
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**NOTE 4****FIXED ASSETS**

A statement of changes in equipment and accumulated depreciation for the Pension Trust Funds for the years ended June 30, 2001 and 2000 is as follows:

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Net Equipment</u>
Balance -			
June 30, 1999	\$ 108,354	\$ 57,450	\$ 50,904
Additions	24,260	16,516	7,744
Deletions	<u>(6,998)</u>	<u>(6,998)</u>	—
Balance -			
June 30, 2000	<u>\$ 125,616</u>	<u>\$ 66,968</u>	<u>\$ 58,648</u>
Additions	-	-	-
Deletions	<u>(108,576)</u>	<u>(52,441)</u>	<u>(56,135)</u>
Balance -			
June 30, 2001	<u>\$ 17,040</u>	<u>\$ 14,527</u>	<u>\$ 2,513</u>

A statement of changes in equipment for the General Fixed Assets Account Group for the years ended June 30, 2001 and 2000 is as follows:

Balance -	
June 30, 1999	\$ 6,126
Additions	4,972
Deletions	—
Balance -	
June 30, 2000	\$ 11,098
Additions	-
Deletions	<u>(11,098)</u>
Balance -	
June 30, 2001	<u>\$ -</u>

**NOTE 5****LEASE OBLIGATIONS****Operating Lease:**

The department has entered into an operating lease for office space until June 30, 2003. The lease contains a clause stating that renewal is dependent on appropriation funding by the State Legislature. Lease obligations for operating and capital leases are payable from all funds of the System. Expenditures for the operating lease were \$68,079 and \$68,079 for the years ended June 30, 2001 and 2000, respectively. The future minimum lease payments for the fiscal years ending June 30th are:

2002	\$ 77,106
2003	78,912

**Capital Lease:**

The department has entered into a capital lease for equipment with a cost of \$17,260 until October 2001. Lease obligations for operating and capital leases are payable from all funds of the System. The future minimum lease payments and the present value for fiscal years ending June 30 are:

2002	<u>\$ 2,092</u>
Total minimum lease payments	2,092
Less amount representing interest	<u>26</u>
Present value of minimum lease payments	<u>\$ 2,066</u>

**NOTE 6****NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM**

All eligible employees of the System, except those electing to participate in the North Dakota Defined Contribution Retirement Plan, contribute to the North Dakota Public Employees Retirement System (PERS), a state-wide cost-sharing multiple-employer defined benefit pension plan which is detailed in the notes that follow.

The System is required to contribute to PERS at an actuarially determined rate for permanent employees. The System's contributions to PERS for the years ended June 30, 2001, 2000 and 1999, were \$60,657, \$57,535 and \$49,615 equal to the required contributions for each year.

**NOTE 7****DESCRIPTION OF PLANS****A) General**

The System administers two defined benefit pension plans and a defined contribution plan. The Public Employees Retirement System (PERS) is a cost-sharing multiple-employer retirement plan. The PERS was established July 1, 1966 as a defined contribution plan and was changed to a defined benefit plan by the 1977 North Dakota Legislature. The PERS is administered in accordance with Chapter 54-52 of the North Dakota Century Code. The Highway Patrolmen's Retirement System (HPRS) was established July 1, 1949 and is administered in accordance with Chapter 39-03 of the North Dakota Century Code. The HPRS is a single-employer defined benefit plan. The North Dakota Defined Contribution Retirement Plan was established on January 1, 2000 and is administered in accordance with Chapter 54-52.6 of the North Dakota Century Code.

The following brief description of the PERS and the HPRS, and the Defined Contribution Plan is provided for general information purposes only. Participants should refer to the applicable chapters of the North Dakota Century Code for more complete information.

The PERS covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions (Main System). It also covers Supreme and District Court Judges and the National Guard Security Officers and Firefighters. The HPRS covers substantially all sworn officers of the North Dakota Highway Patrol. The Defined Contribution Plan covers state employees who are in positions not classified by the central personnel division of the State of North Dakota. Employees of the judicial branch or the Board of Higher Education and State institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Defined Contribution Plan.

The systems are not subject to the provisions of the Employee Retirement Income Security Act of 1974.

The number of participating political subdivisions in the PERS was:

	<u>2001</u>	<u>2000</u>
Cities and Park Districts	59	58
Counties	41	41
School Districts	81	76
Other	<u>49</u>	<u>48</u>
Total participating political subdivisions	<u>230</u>	<u>223</u>

Employee membership data is as follows:

	<b>PERS</b>		<b>HPRS</b>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Retirees and Beneficiaries				
Currently Receiving Benefits	4,938	4,709	81	80
Special Prior Service Retirees	137	170	-	-
Terminated				
Vested Participants	400	180	1	1
Inactive Participants	2,730	2,699	-	-
Active Plan Participants:				
Vested	12,292	11,914	71	66
Nonvested	<u>4,464</u>	<u>4,461</u>	<u>53</u>	<u>56</u>
Total Plan Membership	<u>24,961</u>	<u>24,133</u>	<u>206</u>	<u>203</u>

Every permanent state employee who is at least 18 years old and who is in a position not classified by the central personnel division of the State of North Dakota may be eligible to participate in

a defined contribution pension plan administered by the North Dakota Public Employees Retirement System. Employees of the judicial branch or the Board of Higher Education and State Institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Plan.

The defined contribution plan had 266 and 237 participants as of June 30, 2001 and 2000, respectively.

**B) Pension Benefits**

*PERS*

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. (Effective August 1, 2001, there is an addition of ad-hoc post-retirement increase for retirees, disableds and beneficiaries equal to 6%, for the Main System and National Guard and two ad-hoc post-retirement increases for retirees and beneficiaries for judges equal to 2% beginning January 1, 2002 and January 1, 2003). Members are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65), equal to 1.89 percent (2.00 percent, effective August 1, 2001) of their final average salary for each year of service. The Plan permits early retirement at ages 55-64 with three or more years of service for the Main System and National Guard, and five or more years of service for the Supreme and District Court judges.

The monthly pension benefit for Supreme and District Court judges at normal retirement age (65) is equal to 3.50 percent of final average salary multiplied by the first ten years of service, plus 2.80 percent of the final average salary times the second ten years of service, plus 1.25 percent of final average salary times years of service in excess of twenty years. The judicial retirement formula is only applied to eligible judicial service. Non-judicial service benefits are calculated using the 1.89 percent multiplier (2.00 percent effective August 1, 2001).

The monthly pension benefit for the National Guard Security Officers and Firefighters at normal retirement age (55) is equal to 1.89 percent (2.00 percent, effective August 1, 2001) of final average salary for each year of service with three years served as a security officer or firefighter.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, level social security or term-certain annuity.



Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

#### *HPRS*

Benefits are set by statute. The System has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members are entitled to unreduced pension benefits upon attainment of age 55 and ten years of eligible employment or when the sum of age and years of credited service equals or exceeds 80. The annual pension benefit is equal to a percentage of average monthly salary using the highest 36 consecutive months out of the last 120 months of service. The percentage is equal to the sum of the first 25 years of service multiplied by 3.40 percent (3.60 percent effective August 1, 2001) and 1.75 percent multiplied by years of service in excess of 25, if any. The Plan permits early retirement at ages 50-54, with ten or more years of service.

#### *Defined Contribution Plan*

Members are entitled to their vested account balance. A participating member is immediately 100% vested in the member's contributions. A participating member vests in the employer contributions made on the member's behalf as follows:

Upon completion of two years of service	50%
Upon completion of three years of service	75%
Upon completion of four years of service	100%

Members may elect to receive their account balance in a lump sum, lump sum direct roll-over or periodic distribution.

### **C) Death and Disability Benefits**

#### *PERS*

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System and National Guard, or less than five years of service for Supreme and District Court Judges, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System and National Guard, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50 percent of the member's accrued normal retire-

ment benefit, or 60 monthly payments equal to the member's accrued normal retirement benefit calculated as if the member were age 65 the day before death occurred or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

For Judges who have earned more than five years of credited service, the death benefit is the greater of (i) lump sum payment of accumulated contributions, and (ii) 100% of the members' accrued benefit (not reduced on account of age), payable for the spouse's lifetime.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25 percent of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the System in the North Dakota Administrative Code.

For Judges only, the disability benefit formula is 70% of final average salary minus Social Security and Workers Compensation benefits.

#### *HPRS*

Death and disability benefits are set by statute. If an active member dies with less than ten years of credited service, a death benefit equal to the value of the member's accumulated contributions, plus interest is paid to the member's beneficiary. If the member has earned more than ten years of credited service, the surviving spouse, if any, will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50 percent of the member's accrued normal retirement benefit or 60 monthly payments equal to the member's accrued normal retirement benefit calculated as if the member were age 55 the day before death occurred. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to any designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are up to 70 percent of their final average salary, reduced by worker's compensation, with a minimum benefit

of \$100. To qualify under this section the member must meet the criteria established by the System for being totally disabled and apply for benefits within one year of termination.

#### *Defined Contribution Plan*

Upon the death of a participating member or former participating member, the vested account balance of that deceased participant is available to the participant's designated beneficiary(ies).

A member who becomes totally and permanently disabled while employed by the State is eligible to receive a distribution of the vested account balance. To qualify under this section, the member must meet the criteria established by the System for being totally disabled.

#### **D) Refunds of Member Contributions**

Upon termination, if a member of PERS or HPRS is not vested (is not 65 or does not have three years of service for the Main System and National Guard, or five years of service for the Supreme and District Court Judges, credited for the PERS, or is not 60 or does not have ten years of service credited for the HPRS), they will receive the accumulated member contributions plus interest. If a member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

#### **E) Contributions**

Contribution rates for PERS and HPRS are set by state statute, actuarially determined based on the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost, (2) an amount for amortization of the unfunded accrued liability over an open period of 20 years, and (3) the amount necessary to provide for operating expenses. Contribution rates for the Defined Contribution Plan are set by state statute and are a percentage of salaries and wages.

#### *PERS*

Member contributions are established at 4 percent of regular compensation with the exception of Supreme and District Court judge contributions which are established at 5 percent of total compensation. During the 1983-1985 biennium the State and some of the participating political subdivisions implemented the employer pickup provision of the IRS code whereby a portion of all of the required member contributions are made by

the employer. The State is paying the full member contribution with the exception of the Supreme and District court judges for which the State is paying 4 of the 5 percent contribution. Some of the political subdivisions are paying all or part of the member contributions.

Employer contributions of 4.12 percent of covered compensation are set by statute. The employer contribution rate for the Supreme and District Court Judges is also set by statute at 14.52 percent and the contribution rate for the National Guard Security Officers and Firefighters is set by the Board at 8.33 percent. The entry age normal cost method determines the amount of contributions necessary to fund: (a) the current service cost, which represents the estimated amount necessary to pay for the benefits earned by members during the current service year and, (b) the prior service cost, which represents the amount necessary to pay for benefits earned prior to the effective date of the plan.

Effective January 1, 2000, except for Supreme and District court judges, the member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan.

The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service - Greater of one percent of monthly salary or \$25
- 13 to 24 months of service - Greater of two percent of monthly salary or \$25
- 25 to 36 months of service - Greater of three percent of monthly salary or \$25
- Longer than 36 months of service - Greater of four percent of monthly salary or \$25

An open period of 20 years to fund accrued liabilities for the Public Employees Retirement System and the Supreme and District Court Judges has been adopted for the July 1, 1996 valuation and adopted for the National Guard Security Officers and Firefighters for the July 1, 1998 valuation. Currently, employer contributions are sufficient to meet these funding schedules.

#### *HPRS*

Employees' contributions are established at 10.3 percent of total compensation of which the state is paying 4 percent. Employer contributions of 16.7 percent of covered compensation are set by statute. The entry age normal cost method determines the amount of contributions necessary to fund; (a) the current service cost, which represents the estimated amount necessary to pay for benefits earned by



employees during the current service year and, (b) the prior service cost, which represents the amount necessary to pay for benefits earned prior to the effective date of the plan.

An open period of 20 years to fund accrued liabilities for the Highway Patrolmen's Retirement System has been adopted for the July 1, 1996 valuation. Currently, employer contributions are sufficient to meet this funding schedule.

The following schedule represents the annual pension costs and net pension obligations:

Annual required contributions	\$ 420,601
Interest on net pension obligations	(16,664)
Adjustment to annual required contributions	<u>14,538</u>
Annual pension costs	418,475
Contributions made	<u>788,125</u>
Increase in net pension obligations	(369,650)
Net pension obligations, beginning of year	<u>(208,303)</u>
(Assets in excess of) net pension obligations, end of year	<u>\$ (577,953)</u>

*Defined Contribution Plan*

Member contributions are established at 4 percent and employer contributions are established at 4.12 percent of regular compensation.

**NOTE 8  
RETIREE HEALTH INSURANCE  
CREDIT FUND**

The Retiree Health Insurance Credit Fund, a cost-sharing multiple-employer plan, is administered by the System to provide members receiving retirement benefits from the PERS, the HPRS, the Retirement Plan for Employees of Job Service North Dakota, and judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Employee membership data is as follows:

	<u>2001</u>	<u>2000</u>
Retired Participants	3,306	3,169
Active Participants	<u>17,110</u>	<u>16,720</u>
Total Participants	<u>20,416</u>	<u>19,889</u>

The Projected Unit Credit is the actuarial cost method used for the Retiree Health Insurance Credit Fund. Significant actuarial assumptions used are as follows:

*Mortality Rates:* 1983 Group Annuity Mortality Table for Healthy Lives and the Pension Benefit Guaranty Corporation Disabled Life Mortality Table for Participants Receiving Social Security Benefits for Disabled Lives.

*Withdrawal Rates:* Rates of withdrawal from active service before retirement for reasons other than death, rates of disability and expected retirement ages developed on the basis of an investigation of actual plan experience.

*Investment Return:* 8.00% per annum, net of investment expenses.

*Inflation:* 4.50% per annum.

*Expenses:* Administrative expenses of \$65,000 a year.

*Actuarial Value of Assets:* Adjusted market value that immediately recognizes interest and dividends. The procedure recognizes 20% of each year's total appreciation (depreciation) beginning with the year of occurrence.

The Retiree Health Insurance Credit Fund has 17,110 active participants at June 30, 2001. The employers' actuarially required contribution was \$4,415,851 and the actual employer contributions for the period ended June 30, 2001 were \$4,191,541. The amount of net assets held in trust for post employment healthcare benefits at June 30, 2001 is \$24,559,259. The actuarially accrued liability and actuarially unfunded accrued liability at June 30, 2001 is \$65,467,465 and \$40,690,917, respectively. The benefit security ratio for the last five years is 26.4% for 1997, 29.7% for 1998, 33.7% for 1999, 36.5% for 2000, and 37.8% for 2001. The progress of this ratio reveals overall improvement in the Plan's funded condition.

The following are the changes in actuarial assumptions, asset method and plan experience and the effect on the employer's contribution rates expressed as a percent of covered payroll, and the dollar effect on the actuarial accrued liability.

	<u>%</u>	<u>Dollar</u>
Net effect of change in retirement age assumption	.00	\$ -
Benefit improvements	.00	-
Changes in plan experience during the year	<u>(.03)</u>	<u>(134,138)</u>
	<u>(.03)</u>	<u>\$ (134,138)</u>

The employer contribution for the PERS and the HPRS and the Defined Contribution Plan is set by statute on an actuarially determined basis at 1 percent of covered compensation. Job Service North Dakota reimburses the Retiree Health Insurance Credit Fund monthly for credit received by members of the Retirement Plan for Employees of Job Service North Dakota.

Employees participating in the retirement plan as part-time/temporary members are required to contribute 1 percent of their covered compensation to the Retiree Health Insurance Credit Fund.

Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "prefunded credit applied" on the Statement of Changes in Plan Net Assets for the pension trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Retirement Plan for Employees of Job Service North Dakota, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan. The benefits are equal to \$4.50 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

**NOTE 9  
DEFERRED COMPENSATION PLAN FOR PUBLIC EMPLOYEES**

The System was given the authority by Chapter 54-52.2 to administer an employee deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan allows employees of the State of North Dakota or any of its political subdivisions, institutions, departments, or agencies to participate, providing that the employee has signed a participant agreement which permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive use of the employee or their beneficiary.

The related assets are reported at market value as investments as follows:

	2001		2000	
Plan Participation By:				
State of				
North Dakota	\$6,439,702	84%	\$5,653,244	83%
Other				
Jurisdictions	<u>1,246,750</u>	<u>16%</u>	<u>1,162,978</u>	<u>17%</u>
Total Value	<u>\$7,686,452</u>	<u>100%</u>	<u>\$6,816,222</u>	<u>100%</u>

**NOTE 10  
FEDERAL INCOME TAX STATUS**

The System is exempt from the payment of any federal income taxes by virtue of being an agency of the state of North Dakota.

**NOTE 11  
UNIFORM GROUP INSURANCE PROGRAM SURPLUS**

The Uniform Group Insurance Program, an enterprise fund, contracts with Blue Cross Blue Shield of North Dakota (BCBS) to provide health care insurance to the employees of the State of North Dakota, or any of its political subdivisions, institutions, departments or agencies. The contract provides for an accounting of premiums paid and claims incurred during the biennium, with any surplus shared according to a formula outlined in the contract. The surplus will be reduced by claims incurred during the biennium that are paid during the 24 months following the end of the biennium. Based on BCBS's accounting for the biennium ended June 30, 1999, the PERS portion of the surplus was determined to be \$4.9 million. This amount was depleted by claims paid during the prior fiscal year that were incurred during the 1997-99 biennium. The System used \$2.2 million and \$2.1 million of the accumulated surplus and earnings from previous bienniums during the fiscal years 2001 and 2000, respectively, to reduce the premium rates. The accumulated surplus and other invested funds in the amount of \$698,748 are shown as cash on the System's balance sheet. These funds are being held by BCBS.

The contract for the 1999-2001 biennium provides for a similar accounting of surplus balances. As of June 30, 2001, the surplus for the 2001 fiscal year is \$5.9 million. This surplus is not reflected on the financial statements as this is only an estimate and the amount will change based on claims paid throughout the life of the contract and 24 months following the end of the contract.



Similarly, the Uniform Group Insurance Program contracts with ReliaStar Life Insurance Company to provide life insurance to the employees of the State of North Dakota or any of its political subdivisions, institutions, departments or agencies. The contract provides for an accounting of premiums paid and claims incurred during the biennium, with any surplus shared according to a formula outlined in the contract. Based on ReliaStar final accounting for the 1999-2001 biennium there is a surplus for this contract period of \$179,279. Accumulated surplus and earnings are used to fund rate reductions in the supplemental life program or provide benefit enhancements. The accumulated surplus is being held at ReliaStar and is earning interest based on a formula provided in the contract at a rate equal to three percent plus any additional interest as ReliaStar may declare from year to year. The accumulated surplus and earnings of \$179,279 is shown as cash on the System's balance sheet.

**NOTE 12  
RISK MANAGEMENT**

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees and the University System. All state agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The System also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the agency with blanket fidelity bond coverage in the amount of

\$4,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The System participates in the North Dakota Worker's Compensation Bureau, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 13  
RELATED PARTIES**

As stated in Note 1 of these financial statements, the System is a state agency of the state of North Dakota, as such, the other state agencies of the state and political subdivisions are related parties.

**NOTE 14  
CUMULATIVE EFFECT  
OF ACCOUNTING CHANGE**

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Government. Certain of the significant changes in the Statement include the following:

For the first time the financial statements will include:

A Management's Discussion and Analysis (MD&A) section providing an analysis of the Agency's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the Agency's activities.

A change in the fund financial statements to focus on the major funds.

The expendable trust fund (Pretax Benefits Program and the Deferred Compensation Plan) will be reported as a trust fund.

The general provisions of GASBS No. 34 must be implemented by Public Employees Retirement System no later than the fiscal year ending June 30, 2002.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

**Required Supplementary Information  
Schedule of Employer Contributions For the six years ended June 30, 2001**

**Public Employees Retirement System**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1996	\$ 10,588,800	100%
1997	11,421,000	100
1998	10,810,265	100
1999	9,698,810	100
2000	13,457,783	100
2001	9,642,770	100

**Highway Patrolmen's Retirement System**

Year Ended June 30	Annual Required Contribution	Percentage Contributed	Net Pension Obligation
1996	\$ 468,100	100%	\$ -
1997	439,900	100	-
1998	609,384	100	-
1999	521,216	100	-
2000	532,786	139	(208,303)
2001	420,601	187	(577,953)

See Notes to Required Supplementary Schedules

**Required Supplementary Information  
Schedule of Funding Progress For the six years ended June 30, 2001**

**Public Employees Retirement System (Expressed in Millions)**

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Entry Age	Actuarial Value of Assets	Unfunded AAL (UAAL) (Funded Excess)	Ratio of Assets to AAL	Covered Payroll	UAAL (Funded Excess) as a Percentage of Covered Payroll
1996	\$ 597.9	\$ 621.7	\$ (23.8)	104.0%	\$ 345.3	(6.9)%
1997	646.9	704.5	(57.6)	108.9	359.0	(16.0)
1998	720.1	801.3	(81.2)	111.3	379.0	(21.4)
1999	842.7	917.0	(74.3)	108.8	397.7	(18.7)
2000	891.9	1,027.0	(135.1)	115.1	409.0	(33.0)
2001	1,008.7	1,115.3	(106.6)	110.6	433.3	(24.6)

**Highway Patrolmen's Retirement System (Expressed in Millions)**

Actuarial Valuation Date June 30	Actuarial Accrued Liabilities (AAL) - Entry Age	Actuarial Value of Assets	Unfunded AAL (UAAL) (Funded Excess)	Ratio of Assets to AAL	Covered Payroll	UAAL (Funded Excess) as a Percentage of Covered Payroll
1996	\$ 23.8	\$ 22.2	\$ 1.6	93.3%	\$ 3.8	42.1%
1997	27.5	24.9	2.6	90.5	4.2	61.9
1998	28.9	28.1	.8	97.2	4.3	18.6
1999	32.2	32.0	.2	99.4	4.5	4.4
2000	34.0	35.9	(1.9)	105.6	4.7	(40.4)
2001	38.1	38.8	(0.7)	101.8	4.9	(14.3)

See Notes To Required Supplementary Schedules



**NOTES TO  
REQUIRED  
SUPPLEMENTARY  
SCHEDULES**

*June 30, 2001 & 2000*

**NOTE 1  
DESCRIPTION OF SCHEDULE OF  
FUNDING PROGRESS**

Each time a new benefit is added which applies to service already rendered, an "unfunded accrued liability" is created. Laws governing PERS require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded accrued liabilities.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded accrued liabilities increasing in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities divided by active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to covered payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

**NOTE 2  
ACTUARIAL ASSUMPTIONS  
AND METHODS**

*Funding Method:*

An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. Unfunded actuarial accrued liabilities for pension benefits are amortized over an open period of 20 years for the Public Employees Retirement System, the Supreme and District Court Judges, and the Highway Patrolmen's Retirement System which was adopted for the July 1, 1996 valuation. For the July 1, 1998 valuation the National Guard Security Officers and Firefighters changed the amortization period for the unfunded actuarial accrued liabilities for pension benefits from a closed period to an open period of 20 years. For both plans, this will produce payments which are level percents of payroll contributions based on an open amortization period.

*Asset Valuation Method:*

For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized over a five-year period.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2001, the date of the latest actuarial study include:

- Investment Return – A rate of return on the investment of present and future assets of 8 percent.
- Inflation – The assumed inflation rate is 4.50% per annum.
- Salary Scale – Projected salary increases based upon inflation of 4.5 percent together with wage increases attributable to seniority, merit and "standard of living" increases.
- Mortality Rates – Pre- and post-mortality life expectancies of participants based upon 1983 Group Annuity Mortality Tables and the Pension Benefit Guaranty Corporation's Disabled Life Mortality Tables.
- Withdrawal – Rates of withdrawal from active service before retirement for reasons other than death, rates of disability and expected retirement ages developed on the basis of an investigation of actual plan experience.
- Expenses – Administrative expense of \$720,000 a year for the Public Employees Retirement System and \$16,000 a year for Highway Patrolmen's Retirement System.
- Post-retirement benefit increase – There are no post-retirement benefit increase assumptions.

**COMBINING,  
INDIVIDUAL  
FUND AND  
ACCOUNT GROUP  
STATEMENTS  
AND SCHEDULES**

**FIDUCIARY FUNDS**

**Expendable Trusts:**

*Pretax Benefits Program*

Accounts for pre-tax premium conversions, a medical spending account and a dependent care spending account according to Section 125 of the Internal Revenue Code.

*Deferred Compensation*

Accounts for the activity of the deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 for State employees and various participating political subdivisions.

**Pension Trusts:**

*Defined Contribution Retirement Plan*

An optional defined contribution retirement plan that covers state employees who are in positions not classified by the central personnel division of the State of North Dakota. Employees of the judicial branch or the Board of Higher Education and State institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in this plan.

*Highway Patrolmen's Retirement System*

A single-employer defined benefit pension plan covering officers of the North Dakota Highway Patrol.

*Public Employees Retirement System*

A cost-sharing multiple-employer defined benefit pension plan covering substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. It also covers Supreme and District Court Judges and the National Guard Security Officers and Firefighters.

*Retiree Health Insurance Credit Fund*

A cost-sharing multiple-employer plan which provides members receiving retirement benefits from PERS, HPRS, or the defined contribution plan a credit toward their monthly health insurance premium under the state health plan.



**Combining Balance Sheet – Fiduciary Funds**  
**June 30, 2001 and 2000**

	Expendable Trust		Pension Trust		Totals	
	2001	2000	2001	2000	2001	2000
<b>ASSETS</b>						
Assets						
Cash and cash equivalents	\$ 373,030	\$ 321,325	\$ 824,661	\$ 965,133	\$ 1,197,691	\$ 1,286,458
Investments	7,686,452	6,816,222	1,198,741,836	1,263,306,825	1,206,428,288	1,270,123,047
Invested securities collateral	-	-	79,537,494	117,319,258	79,537,494	117,319,258
Contributions receivable	-	-	3,017,179	2,845,020	3,017,179	2,845,020
Interest receivable	-	-	4,552,387	5,020,130	4,552,387	5,020,130
Accounts receivable	324,898	302,102	1,558	913	326,456	303,015
Due from other funds	11,360	14,053	224,697	63,530	236,057	77,583
Due from other state agencies	31,589	29,622	932	462	32,521	30,084
Equipment (net of depreciation)	-	-	2,513	58,648	2,513	58,648
Total assets	\$ 8,427,329	\$ 7,483,324	\$ 1,286,903,257	\$ 1,389,579,919	\$ 1,295,330,586	\$ 1,397,063,243
<b>LIABILITIES AND EQUITY</b>						
Liabilities:						
Salaries payable	\$ 15,507	\$ 15,421	\$ 37,863	\$ 36,546	\$ 53,370	\$ 51,967
Accounts payable	6,237	16,507	926,589	1,113,969	932,826	1,130,476
Due to other funds	2	-	82,568	97,187	82,570	97,187
Due to other state agencies	3,048	7,978	12,302	24,999	15,350	32,977
Securities lending collateral	-	-	79,537,494	117,319,258	79,537,494	117,319,258
Equipment lease payable	-	-	2,066	8,019	2,066	8,019
Accrued annual leave	-	-	40,011	35,371	40,011	35,371
Total liabilities	24,794	39,906	80,638,893	118,635,349	80,663,687	118,675,255
<b>EQUITY</b>						
Fund balances:						
Reserved:						
Employees Retirement System	-	-	1,206,264,364	1,270,944,570	1,206,264,364	1,270,944,570
Unreserved:						
Designated for trust purposes	8,402,535	7,443,418	-	-	8,402,535	7,443,418
Total equity	8,402,535	7,443,418	1,206,264,364	1,270,944,570	1,214,666,899	1,278,387,988
Total liabilities & equity	\$ 8,427,329	\$ 7,483,324	\$ 1,286,903,257	\$ 1,389,579,919	\$ 1,295,330,586	\$ 1,397,063,243

## Combining Balance Sheet – Expendable Trust Funds

For the fiscal years ended June 30, 2001 and 2000

	Pretax Benefits Program		Deferred Compensation		Totals	
	2001	2000	2001	2000	2001	2000
<b>ASSETS</b>						
Assets:						
Cash and cash equivalents	\$ 371,080	\$ 321,325	\$ 1,950	\$ -	\$ 373,030	\$ 321,325
Investments	-	-	7,686,452	6,816,222	7,686,452	6,816,222
Accounts receivable	324,893	302,102	5	-	324,898	302,102
Due from other funds	11,360	14,053	-	-	11,360	14,053
Due from other state agencies	31,589	29,622	-	-	31,589	29,622
Total assets	\$ 738,922	\$ 667,102	\$ 7,688,407	\$ 6,816,222	\$ 8,427,329	\$ 7,483,324
<b>LIABILITIES &amp; EQUITY</b>						
Liabilities:						
Salaries payable	\$ 6,591	\$ 6,373	\$ 8,916	\$ 9,048	\$ 15,507	\$ 15,421
Accounts payable	3,836	1,560	2,401	14,947	6,237	16,507
Due to other funds	2	-	-	-	2	-
Due to other state agencies	743	888	2,305	7,090	3,048	7,978
Total liabilities	11,172	8,821	13,622	31,085	24,794	39,906
<b>EQUITY</b>						
Fund Balances:						
Unreserved:						
Designated for trust purposes	727,750	658,281	7,674,785	6,785,137	8,402,535	7,443,418
Total equity	727,750	658,281	7,674,785	6,785,137	8,402,535	7,443,418
Total liabilities and equity	\$ 738,922	\$ 667,102	\$ 7,688,407	\$ 6,816,222	\$ 8,427,329	\$ 7,483,324

**Combining Statements of Revenues, Expenditures and Changes in Fund Balances – Expendable Trust Fund**  
**For the fiscal years ended June 30, 2001 and 2000**

	Pretax Benefits Program		Deferred Compensation		Totals	
	2001	2000	2001	2000	2001	2000
<b>REVENUES:</b>						
FICA Tax Savings	\$ 385,025	\$ 364,951	\$ -	\$ -	\$ 385,025	\$ 364,951
Investment Earnings	24,039	31,209	(797,858)	615,519	(773,819)	646,728
Employee Contributions	3,943,540	3,706,894	1,787,137	875,796	5,730,677	4,582,690
<b>Total Revenues</b>	<b>4,352,604</b>	<b>4,103,054</b>	<b>989,279</b>	<b>1,491,315</b>	<b>5,341,883</b>	<b>5,594,369</b>
<b>EXPENDITURES:</b>						
Employee withdrawals	-	-	119,049	43,067	119,049	43,067
Administrative expenditures	120,468	153,029	198,956	336,761	319,424	489,790
Flex comp expenditures	3,864,797	3,774,075	-	-	3,864,797	3,774,075
<b>Total Expenditures</b>	<b>3,985,265</b>	<b>3,927,104</b>	<b>318,005</b>	<b>379,828</b>	<b>4,303,270</b>	<b>4,306,932</b>
Revenue Over (Under) Expenditures Before Other Financing Sources (Uses)	367,339	175,950	671,274	1,111,487	1,038,613	1,287,437
Other Financing Sources (Uses)						
Operating Transfer In	-	-	218,374	300,635	218,374	300,635
Operating Transfer Out	(297,870)	(536,487)	-	-	(297,870)	(536,487)
Revenue Over (Under) Expenditures	69,469	(360,537)	889,648	1,412,122	959,117	1,051,585
Fund Balances – July 1	658,281	1,018,818	6,785,137	5,373,015	7,443,418	6,391,833
Fund Balances – June 30	\$ 727,750	\$ 658,281	\$ 7,674,785	\$ 6,785,137	\$ 8,402,535	\$ 7,443,418

**Schedule of General Fixed Assets by Source  
June 30, 2001**

General Fixed Assets	
Equipment	<u>\$ 0</u>
Total General Fixed Assets	<u>\$ 0</u>
Investment in General Fixed Assets By Source	
Special Revenue Fund	<u>\$ 0</u>
Total Investment in General Fixed Assets	<u>\$ 0</u>

**Schedule of General Fixed Assets by Function  
June 30, 2001**

Function	Equipment
General Government	<u>\$ 0</u>
Total General Fixed Assets	<u>\$ 0</u>

**Schedule of Changes in General Fixed Assets by Function  
for the Fiscal Year Ended June 30, 2001**

Function	General Fixed Assets June 30, 2000	Additions	Retirements	General Fixed Assets June 30, 2001
General Government	<u>\$ 11,098</u>	<u>\$ 0</u>	<u>\$ 11,098</u>	<u>\$ 0</u>
Total General Fixed Assets	<u>\$ 11,098</u>	<u>\$ 0</u>	<u>\$ 11,098</u>	<u>\$ 0</u>



**Schedule of Administrative Expenses**  
**For the Fiscal Years Ended June 30, 2001 and 2000**

	Public Employees Retirement System		Highway Patrolmen's Retirement System		Retiree Health Insurance Credit Fund		Defined Contribution Retirement Fund	
	2001	2000	2001	2000	2001	2000	2001	2000
<b>Personnel Services:</b>								
Salaries	\$ 298,284	\$ 283,140	\$ 2,518	\$ 2,408	\$ 29,621	\$ 27,744	\$ 12,454	\$ 25,841
Social Security	22,832	21,642	193	184	2,266	2,120	953	1,972
Retirement	26,195	24,846	221	211	2,582	2,423	1,136	2,351
Insurance	40,994	38,143	346	324	3,931	3,688	1,690	4,057
Total Personnel Services	388,305	367,771	3,278	3,127	38,400	35,975	16,233	34,221
<b>Professional Services:</b>								
Actuarial	175,415	75,176	8,475	7,500	8,200	21,200	10,000	48,337
Audit	12,193	8,361	103	234	1,100	1,660	0	0
Data Processing	100,552	125,869	849	1,070	5,790	8,563	14,017	61,363
Consulting	5,085	8,627	331	70	0	0	15,370	75,988
Legal Counsel	18,993	13,729	155	117	1,156	1,378	595	10,614
Misc. Outside Services	10,177	14,745	86	125	879	1,249	0	1,869
Total Professional Services	322,415	246,507	9,999	9,116	17,125	34,050	39,982	198,171
<b>Communication:</b>								
Postage & Mailing Svc	27,768	41,943	234	357	2,892	3,589	9,621	783
Printing	27,711	44,187	234	376	2,188	2,879	43	563
Telephone	9,279	9,868	78	84	778	861	29	526
Total Communication	64,758	95,998	546	817	5,858	7,329	9,693	1,872
<b>Rentals:</b>								
Equipment Rent	6,117	6,376	177	188	1,423	1,415	144	0
Office Rent	28,683	26,583	242	226	2,598	2,607	0	2,709
Total Rentals	34,800	32,959	419	414	4,021	4,022	144	2,709
<b>Miscellaneous:</b>								
Depreciation	15,519	16,516	0	0	0	0	0	0
Dues and Prof Development	5,650	6,146	48	52	436	412	0	0
Insurance	68	68	1	1	6	6	0	0
Miscellaneous	49,237	10,669	73	91	675	967	0	380
Repairs and Maintenance	987	1,051	8	9	90	131	0	0
Supplies	7,918	10,842	67	92	920	1,147	665	1,290
Travel	5,211	12,002	43	102	770	1,022	7,686	7,399
Total Miscellaneous	84,590	57,294	240	347	2,897	3,685	8,351	9,069
Total Administrative Expenses	\$ 894,868	\$ 800,529	\$ 14,482	\$ 13,821	\$ 68,301	\$ 85,061	\$ 74,403	\$ 246,042

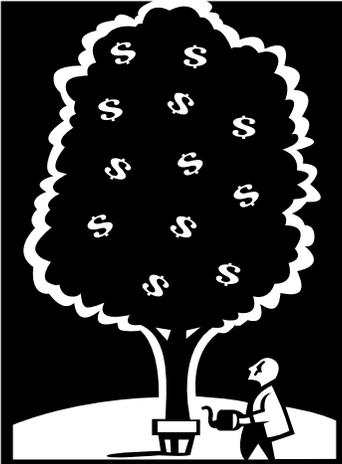
**Schedule of Investment Expenses<sup>(1)</sup>**  
**For the Fiscal Years Ended June 30, 2001 and 2000**

	Public Employees Retirement System		Highway Patrolmen's Retirement System		Retiree Health Insurance Credit Fund		Defined Contribution Retirement Fund	
	2001	2000	2001	2000	2001	2000	2001	2000
<b>Payments to State Investment Board:</b>								
Investment Fees	\$ 3,848,920	\$ 3,578,469	\$ 134,872	\$ 125,186	\$ 53,043	\$ 51,548	\$ 0	\$ 0
Administrative Fees	120,460	106,255	4,227	3,716	0	0	0	0
	<u>3,969,380</u>	<u>3,684,724</u>	<u>139,099</u>	<u>128,902</u>	<u>53,043</u>	<u>51,548</u>	<u>0</u>	<u>0</u>
Securities Lending Fees	5,684,889	5,371,876	199,255	187,951	0	0	0	0
<b>Payments to Fidelity Investments:</b>								
Investment Fees	0	0	0	0	0	0	11,845	12
Total Investment Expenses	<u>\$ 9,654,269</u>	<u>\$ 9,056,600</u>	<u>\$ 338,354</u>	<u>\$ 316,853</u>	<u>\$ 53,043</u>	<u>\$ 51,548</u>	<u>\$ 11,845</u>	<u>\$ 12</u>

<sup>(1)</sup> All pension trust fund assets, except for the assets of the Defined Contribution Fund, are invested with the North Dakota State Investment Board (SIB). The fees paid to the SIB include reimbursement for investment fees paid by the SIB to investment managers, consultants, and the master custodian and reimbursement for the portion of Retirement and Investment Office administrative fees allocated to the Fund.

**Schedule of Consultant Expenses**  
**For the Fiscal Years Ended June 30, 2001 and 2000**

	Public Employees Retirement System		Highway Patrolmen's Retirement System		Retiree Health Insurance Credit Fund		Defined Contribution Retirement Plan	
	2001	2000	2001	2000	2001	2000	2001	2000
<b>Actuary Fees:</b>								
Segal Advisors, Inc.	\$ 0	\$ 25,000	\$ 0	\$ 0	\$ 0	\$ 10,000	\$ 0	\$ 0
The Segal Company	71,637	50,176	8,475	7,500	8,200	11,200	0	38,337
Watson Wyatt	103,778	0	0	0	0	0	10,000	10,000
<b>Audit Fees:</b>								
Brady, Martz & Associates	12,193	8,361	103	234	1,100	1,660	0	0
<b>Disability Consulting Fees:</b>								
Mid Dakota Clinic	5,085	3,695	331	30	0	0	0	0
<b>Miscellaneous Consulting Fees:</b>								
L.R. Wechsler LTD	0	4,932	0	40	0	0	0	0
Segal Advisors, Inc.	0	0	0	0	0	0	15,370	75,988
<b>Legal Fees:</b>								
Calhoun Law Group	7,387	2,412	0	0	0	0	0	0
ND Attorney General	11,606	11,317	155	117	1,156	1,378	595	10,614
Totals	<u>\$211,686</u>	<u>\$105,893</u>	<u>\$9,064</u>	<u>\$7,921</u>	<u>\$10,456</u>	<u>\$24,238</u>	<u>\$25,965</u>	<u>\$134,939</u>



## INVESTMENT SECTION

The goal of the Board is to provide income through various investments, together with employer and employee contributions, sufficient to pay benefits accrued under the North Dakota Public Employees Retirement System (System) and to provide for future benefit enhancements. The investment portfolio is very important to achieve this goal.

The investment section includes a report of investment activity prepared by the Investment Director of the State Investment Board (SIB), a summary of the Retirement Board's investment policies, and tables and charts presenting investment results, asset allocation information, and investment fees. The System's assets are held by the SIB in investment pools, therefore, a list of largest assets held is not presented.

Select information for the voluntary Defined Contribution Retirement Plan is also presented in this section.

**INVESTMENT  
REPORT  
FROM THE  
NORTH DAKOTA  
RETIREMENT  
AND  
INVESTMENT  
OFFICE**



**North Dakota Retirement and Investment Office**

*Teachers' Fund for Retirement  
State Investment Board*

Steve Cochrane, CFA  
Executive Director

Fay Kopp  
Deputy Executive Director

1930 Burnt Boat Drive  
P.O. Box 7100  
Bismarck, ND 58507-7100  
701-328-9885  
ND Toll free: 800-952-2970  
Relay ND 800-366-6888  
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www.state.nd.us/rio

November 13, 2001

Board of Trustees  
Members of the System

It is a pleasure to provide the following summary of the North Dakota Public Employees Retirement System investment portfolio and market environment for the fiscal year ended June 30, 2001.

**Introduction**

For the fiscal year ended June 30, 2001, the North Dakota Public Employees Retirement System (PERS) investment portfolio experienced a total return of -4.12%. The investment return calculations were prepared using a monthly time-weighted rate of return methodology in accordance with AIMR's Performance Presentation Standards.

In what was a difficult year for investors, total returns for the PERS fund were negative in domestic equity, international equity, and international fixed income; domestic fixed income, real estate, and private equity generated positive returns.

**Economic Overview**

The fiscal year began amidst signs of a slowing economy. After growing 5.6% in the second quarter of 2000, the economy's real growth rate fell to 2.2% the following quarter (the first of the fiscal year). Unfortunately, this marked a trend and not a one-time dip; each quarter's growth rate proceeded to be lower than the prior quarter's rate. For the year ending June 30, 2001, the economy grew at a real rate of only 1.2%. The Federal Reserve was slow in its response to the deteriorating economic environment. After raising short-term interest rates in May of 2000, Alan Greenspan and the Federal Reserve Board did not begin cutting rates until January of 2001. From January until June of 2001, however, the Fed cut the federal funds target rate by 275 basis points, from 6.5% to 3.75%. As the economy worsened, so did many economic statistics; unemployment increased, manufacturing capacity fell, consumer confidence dropped, and productivity decreased. Inflation, as measured by the Consumer Price Index, rose 3.2% for the fiscal year. A tremendous boom in investment spending helped fuel the dynamic growth in the U.S. economy during the second half of the 1990s, but since the start of 2000 investment spending has trailed off dramatically. Ultimately, this decline in business capital expenditures, especially technology equipment, was too much for the economy to withstand without weakening.

**Domestic Equity Overview**

The fall in domestic equities that began in the second calendar quarter of 2000 continued for the first nine months of the fiscal year. A strong performance in the second calendar quarter of 2001, however, did not prevent the broad market from posting negative double-digit returns for the year ended June 30, 2001. Because technology-oriented, fast-growing companies were hit hardest by the slowing economy, their stocks were the worst performers for the fiscal year. In a reversal of previous years, growth stocks severely under-performed value stocks. Small cap stocks tended to out-perform large cap stocks, but size was less of an issue than style during the year. Overall, the Russell 3000 returned -13.93% for the year with the S&P 500 returning -14.83%. Small cap stocks, as measured by the Russell 2000 Index, returned 0.57%. The median large cap value manager gained 9.25% while the median large cap growth manager lost 27.32% for the fiscal year.

**International Equity Overview**

The solid performance delivered by international equities in the prior fiscal year did not carry-over into the year ended June 30, 2001. International equities were harmed by the slowdown in the U.S. economy and the continued strength of the dollar during the fiscal year. As in the U.S., growth stocks in the technology, media



and telecommunication sectors were particularly hard hit. For the year, the market declines were consistent across all regions-Europe, Pacific, and Emerging Markets. Overall, the Morgan Stanley Capital International Europe, Australia, Far East Index (MSCI EAFE), which includes 21 developed non-U.S. countries, was down 23.60% in dollar terms for the year ending June 30, 2001. Within EAFE, the MSCI Europe Index was down 21.75% for the fiscal year ending June 30, 2001 while the MSCI Pacific Index fell 27.41%. The world's emerging markets again under-performed developed markets as the MSCI Emerging Markets Free Index lost 25.83% for the fiscal year.

#### **Domestic Fixed-Income Overview**

Unlike equities, the domestic bond market benefited from the U.S. economic slowdown in the fiscal year. Due to the lack of a serious inflation threat, Federal Reserve interest rate cuts, and poor performance in the equity markets, the domestic fixed income market generated double-digit returns for the year ended June 30, 2001. Broad market returns were positive in all four quarters of the fiscal year. With the economy hurting many U.S. companies, investors preferred high quality, investment-grade issues to high yielding bonds. Within the investment-grade class, corporate bonds out-performed government bonds, including Treasuries. For the year ending June 30, 2001, the Lehman Brothers Government/Credit Bond Index returned 11.13% for the year, and the broader Lehman Brothers Aggregate Index gained 11.22%. The Lehman Aggregate is the combination of the Government/Corporate Index and the Mortgage Backed Securities Index. The Lehman Brothers Mortgage-Backed Securities Index was up 11.29% for the fiscal year. As for the high yield sector, the Lehman Brothers High Yield Index lost 0.96% for the year.

#### **International Fixed-Income Overview**

Despite a favorable economic backdrop for international fixed income markets, the continued strength of the dollar led to negative market returns for the fiscal year. The broad market gained 5.6% in local terms during the second half of calendar year 2000, yet declined 2.6% in dollar terms. The trend continued in the first half of calendar year 2001, as returns were positive in local currencies, but negative when converted to dollars. On a positive note, Emerging Markets behaved differently from developed markets and produced strong returns for the year. Overall, the Salomon Non-US Government Bond Index declined 7.43% for the year while the Salomon World Government Bond Index fell 3.07% (the latter index includes U.S. Treasury bonds). The J.P. Morgan Emerging Markets Bond Index was up 12.91% for the year.

#### **Real Estate Overview**

The benefits of diversification were on display during the fiscal year as real estate investments surged. REITs (Real Estate Investment Trust) out-performed virtually all asset classes for the year ended June 30, 2001, and private real estate markets produced positive gains as well. Performance was stronger in the second half of calendar year 2000 compared with the first half of 2001 as the real estate market began to feel the effects of a slowing economy. Overall, the NAREIT (National Association of Real Estate Investment Trusts) index for REIT funds was up 25.36% for the fiscal year. In the private markets, the median manager of direct real estate investments in the Callan database gained 7.99% for the fiscal year ended June 30, 2001.

#### **Private Equity Overview**

The Private Equity markets reflected the turbulence of the public markets during the fiscal year. This market, as measured by the Post Venture Capital Index, experienced a -48.23% return for the fiscal year.

#### **Summary**

Fiscal year 2001 rewarded investors who were exposed to asset classes that had been poor performers in recent years; this phenomenon highlights the need for disciplined rebalancing of asset classes back to their target allocations. PERS' exposure to this challenging market environment resulted in a negative total return for the fiscal year. It is notable, however, that the actual fund return exceeded that of the policy benchmark, resulting in a positive relative return.

Sincerely,



STEVE COCHRANE, CFA  
Executive Director/CIO

**INVESTMENT  
POLICIES**

By state law, the System’s assets are invested by the North Dakota State Investment Board (SIB). This change became effective July 1, 1989, with the primary purpose being to achieve cost savings through pooling of assets for investment.

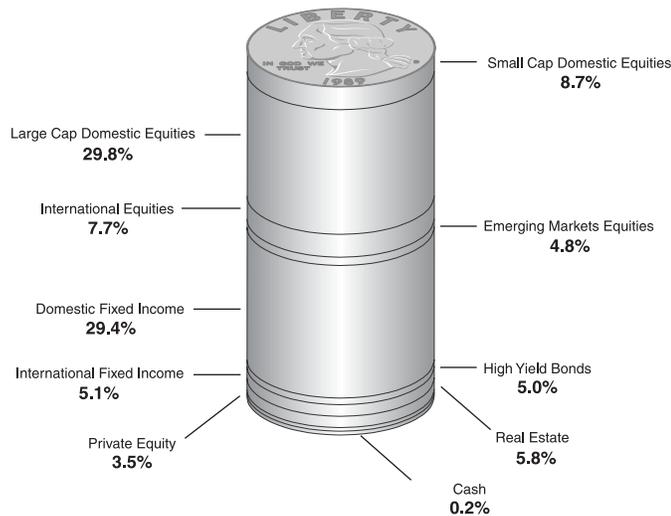
State law requires that the SIB apply the prudent investor rule when investing funds under its supervision. The “prudent investor rule” means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the System must be invested exclusively for the benefit of its members and in accordance with the System’s investment goals and objectives.

The Retirement Board is responsible for establishing policies on investment goals and objectives and asset allocation, which are to be viewed over the

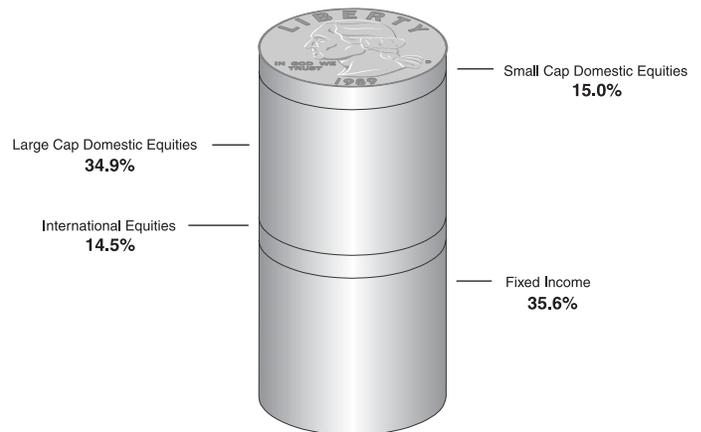
long term. The investment goals are: to accumulate sufficient wealth through a diversified portfolio of investments which must enable the System to pay all current and future retirement benefits and expense obligations of the Fund; to obtain investment returns which allow for future retirement and disability benefit increases; and to obtain investment returns in excess of that needed to allow for increases in a retiree’s annuity to maintain the purchasing power of their benefit. The investment objectives are: to achieve a minimum total real rate of return of 5.4% in excess of the annual rate of inflation, however, the absolute total rate of return must be no less than 9.9% net of fees; and the portfolio mix must be in accordance with the asset allocation.

The SIB is responsible for carrying out the Retirement Board’s investment goals, objectives and policies; implementing the asset allocation plan submitted by the System, maintaining a separate accounting and preparing periodic investment performance reports for the System funds under their authority. The System’s assets may be pooled with other funds, at the discretion of the SIB.

**Public Employees and  
Highway Patrolmen’s Retirement Systems  
Asset Allocation – June 30, 2001**



**Retiree Health Insurance Credit Program  
Asset Allocation – June 30, 2001**



Asset Class	Market Value	Actual %	Policy %
Domestic Large Cap Equity	\$347,193,345	29.8%	30.0%
Domestic Small Cap Equity	101,638,641	8.7%	8.0%
International Equity	89,406,609	7.7%	8.0%
Emerging Markets Equity	55,993,597	4.8%	5.0%
Domestic Fixed Income	343,047,408	29.4%	28.0%
High Yield Fixed Income	58,332,489	5.0%	5.0%
International Fixed Income	59,033,486	5.1%	5.0%
Real Estate	67,827,059	5.8%	5.0%
Private Equity	40,994,755	3.5%	5.0%
Cash & Equivalents	2,975,702	0.2%	1.0%
<b>Total</b>	<b>\$1,166,443,091</b>	<b>100.0%</b>	<b>100.0%</b>

Asset Class	Market Value	Actual %	Policy %
Domestic Large Cap Equity	\$8,466,265	34.9%	35.0%
Domestic Small Cap Equity	3,649,576	15.0%	15.0%
International Equity	3,524,162	14.5%	15.0%
Domestic Fixed Income	8,646,630	35.6%	35.0%
<b>Total</b>	<b>\$24,286,633</b>	<b>100.0%</b>	<b>100.0%</b>

**Public Employees and Highway Patrolmen's Retirement Systems**  
**Schedule of Investment Results <sup>(1)</sup>**  
**For the Five Years Ended June 30, 2001**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	Annualized	
						<u>3 Year</u>	<u>5 Year</u>
Total Fund	19.70%	16.08%	10.63%	9.34%	-4.12%	5.07%	10.01%
CPI	2.15%	1.60%	1.94%	3.87%	3.19%	3.02%	2.53%
Large Cap Domestic Equities	30.12%	29.17%	19.46%	1.31%	-11.35%	2.37%	12.57%
S&P 500	34.66%	30.27%	22.76%	7.24%	-14.83%	3.89%	14.48%
Small Cap Domestic Equities	24.40%	15.79%	-6.18%	16.48%	2.40%	3.82%	N/A
Russell 2000	16.33%	16.51%	1.50%	14.32%	0.57%	5.28%	N/A
International Equities	21.59%	8.92%	13.81%	26.19%	-18.43%	5.90%	9.76%
MSCI 50% Hedged EAFE	17.42%	11.36%	8.69%	19.52%	-17.95%	2.15%	6.09%
Emerging Markets Equities <sup>(2)</sup>	N/A	-27.10%	21.32%	26.42%	-28.86%	2.95%	N/A
MSCI Emerging Markets Free	N/A	-39.09%	28.71%	9.48%	-25.83%	1.44%	N/A
Domestic Fixed Income	8.08%	10.82%	3.17%	11.03%	7.10%	7.35%	8.20%
Lehmann Brothers Aggregate	8.15%	10.54%	3.15%	4.57%	11.22%	6.25%	7.48%
High Yield Bonds <sup>(2)</sup>	N/A	20.41%	15.24%	-0.86%	-4.22%	3.05%	N/A
Lehmann Brothers High Yield Bonds	N/A	11.35%	-0.38%	-1.03%	-0.96%	-0.79%	N/A
International Fixed Income	5.88%	0.29%	5.49%	-0.23%	-7.22%	-0.79%	0.80%
Salomon Brothers World Gov't Non-US	2.16%	0.89%	4.87%	2.42%	-7.43%	-0.19%	0.49%
Real Estate	9.09%	11.32%	11.11%	10.87%	12.37%	11.45%	10.94%
NCREIF Index	11.03%	17.50%	13.46%	10.35%	11.15%	11.85%	12.74%
Private Equity	20.09%	27.97%	12.47%	35.19%	2.63%	16.03%	19.16%
Post Venture Capital Index	0.24%	29.23%	48.85%	40.35%	-48.23%	2.65%	6.98%
Cash	5.30%	5.94%	5.33%	6.22%	6.12%	5.83%	5.73%
90 Day T-bills	5.30%	5.31%	4.87%	5.53%	5.88%	5.25%	5.28%

CPI = Consumer Price Index

S&P 500 = Standard & Poor's Domestic Equity Stock Index

Russell 2000 = Frank Russell Company 2000 Index

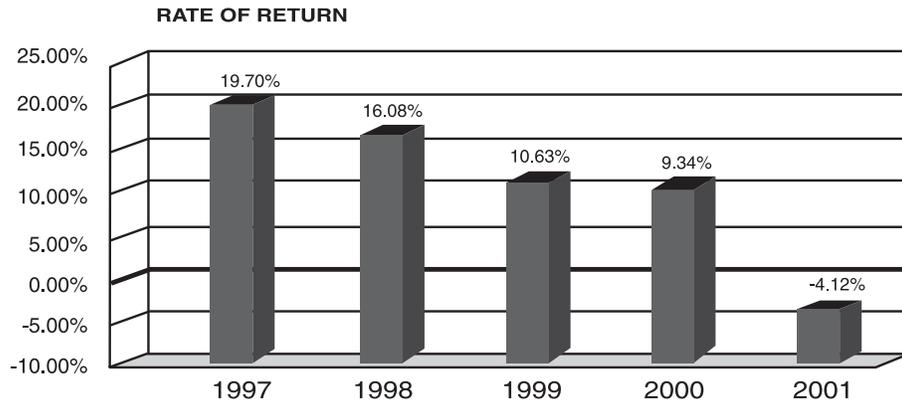
EAFE = Europe, Australia and Far East Stock Index

NCREIF = National Council of Real Estate Investment Fiduciaries Index

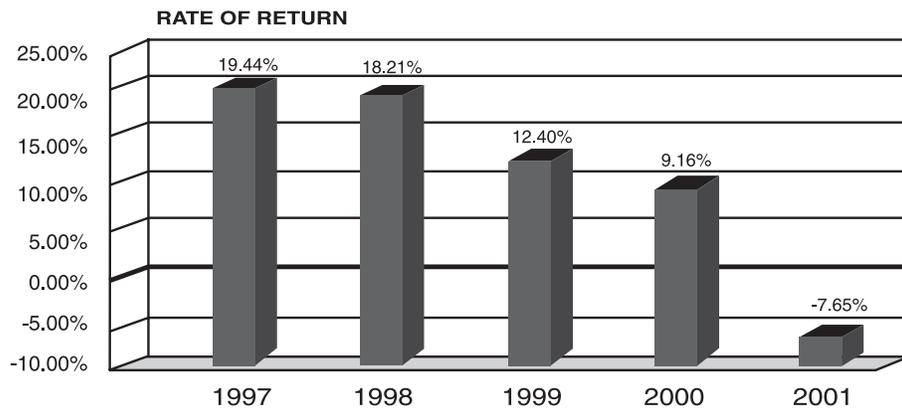
<sup>(1)</sup>Calculations were prepared using a monthly time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards. Total Fund returns are net of investment management fees, all other returns are before fees.

<sup>(2)</sup>1998 is the first full fiscal year the asset class has been in place.

**Public Employees and Highway Patrolmen's Retirement Systems Investment Results**



**Retiree Health Insurance Credit Program Investment Results**



**INVESTMENT FEES**

**Public Employees and Highway Patrolmen's Retirement System Schedule of Investment Fees For the Fiscal Year Ended June 30, 2001**

	<u>Assets Under Management</u>	<u>Fees</u>
<b>Investment Managers' Fees:</b>		
Large Cap Domestic Equities	\$347 Million	\$ 690,777
Small Cap Domestic Equities	\$102 Million	777,059
International Equities	\$89 Million	278,214
Emerging Markets Equities	\$56 Million	302,793
Domestic Fixed Income	\$343 Million	865,436
High Yield Bonds	\$58 Million	121,791
International Fixed Income	\$59 Million	244,206
Real Estate	\$68 Million	617,366
Private Equity	\$41 Million	1,193,334
Cash	\$3 Million	20,566
<b>Total Investment Managers' Fees<sup>(1)</sup></b>		<b><u>\$ 5,111,542</u></b>
<b>Other Investment Service Fees:</b>		
Custodian Fees	\$1 Billion	\$ 248,485
Investment Consultant Fees	\$1 Billion	83,230
<b>Total Investment Service Fees</b>		<b><u>\$ 331,715</u></b>
<b>Securities Lending Fees</b>	<b>\$1 Billion</b>	<b><u>\$ 5,884,144</u></b>



<sup>(1)</sup>Includes fees of \$1,459,465 which were netted against investment income.

## Defined Contribution Investments

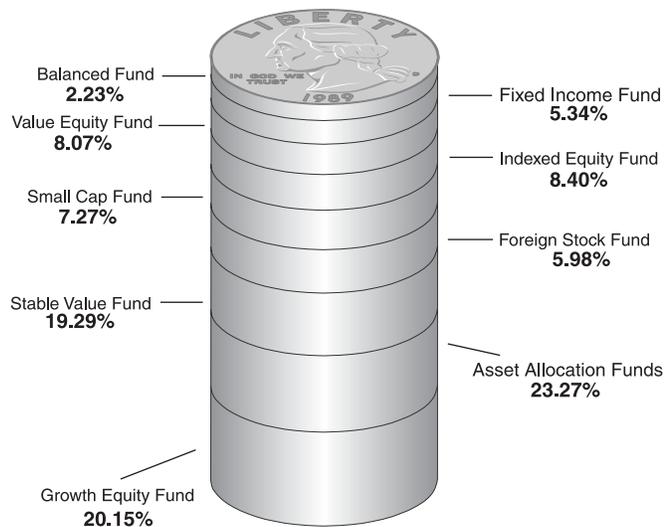
The Defined Contribution Retirement Plan (Plan) is a long-term retirement savings vehicle and is intended as a source of retirement income for eligible participants. Each participating member shall direct the investment of the individual's accumulated employer and employee contributions and earnings to one or more investment choices within available categories of investment provided by the Board. The available investment options cover a broad range of investment risk and rewards appropriate for this kind of retirement savings program. Participants bear the risk and rewards of investment returns that result from the investment options that they select. Fidelity Investments was selected as the recordkeeper for the Plan.

The Board has adopted an investment policy that serves the following purposes:

- Delineates investment options for participants to structure an investment strategy that meets their individual return objectives and risk tolerances
- Defines the investment categories offered by the Plan
- Establishes investment objectives for each investment category offered within the Plan
- Establishes benchmarks and performance standards for each investment category to evaluate each option's performance
- Establishes a procedure and methodology for reporting and monitoring
- Defines the procedures for investment fund evaluation and formal fund review.

## DEFINED CONTRIBUTION INVESTMENTS

### Defined Contribution Retirement Plan Investment Options – June 30, 2001



### Defined Contribution Retirement Plan Investment Options – June 30, 2001

Investment Options	Market Value	Percent
Stable Value Fund	\$ 1,545,612	19.29%
Fixed Income Fund	427,808	5.34%
Balanced Fund	179,083	2.23%
Value Equity Fund	646,382	8.07%
Indexed Equity Fund	672,937	8.40%
Growth Equity Fund	1,614,292	20.15%
Foreign Stock Fund	478,814	5.98%
Small Cap Fund	582,313	7.27%
Asset Allocation Funds	<u>1,864,871</u>	<u>23.27%</u>
Total	\$ 8,012,112	100.00%

**DEFINED  
CONTRIBUTION  
INVESTMENTS**

**Defined Contribution Retirement Plan  
Schedule of Investment Results  
For the Two Years Ended June 30, 2001<sup>(1)</sup>**

	<u>2000</u>	<u>2001</u>
Stable Value Fund	5.80%	6.00%
GIC 5 year Index	7.30%	3.88%
Fixed Income Fund	4.73%	10.22%
Lehman Aggregate Bond Index	4.56%	11.23%
Balanced Fund	-1.29%	7.44%
65% S&P 500 Index, 35% Lehman Aggregate Bond Index	6.55%	-5.71%
Value Equity Fund	-7.67%	10.07%
Russell 1000 Value Index	-8.92%	10.33%
Indexed Equity Fund	7.08%	-14.74%
S&P 500 Index	7.25%	-14.83%
Growth Equity Fund	63.91%	-29.28%
Russell 1000 Growth Index	25.66%	-36.17%
Foreign Stock Fund	32.18%	-14.39%
MSCI EAFE	17.16%	-23.69%
Small Cap Fund	27.45%	-40.07%
Russell 2000 Index	14.32%	0.65%
Asset Allocation Funds <sup>(2)</sup> :		
Income Fund	8.50%	3.25%
Income Benchmark	6.11%	3.68%
2000 Fund	11.10%	-0.19%
2000 Benchmark	6.84%	-0.17%
2010 Fund	14.67%	-5.54%
2010 Benchmark	7.80%	-5.28%
2020 Fund	18.01%	-11.07%
2020 Benchmark	8.84%	-10.54%
2030 Fund	19.52%	-13.96%
2030 Benchmark	9.33%	-13.16%

*All fund returns are reported net of fees.*

<sup>(1)</sup> *The Defined Contribution Plan became effective January 1, 2000, therefore, only annualized returns for the two years ended June 30, 2001 are being reported.*

<sup>(2)</sup> *Benchmarks for the asset allocation funds are customized based on target weightings and market indices for each asset class.*





## ACTUARIAL SECTION

An actuarial valuation is a mathematical means of determining if the contributions paid by the employee and employer, together with investment earnings, are adequate to pay the retirement benefits guaranteed to current retirees and all future retirees.

Because the Retirement Board is charged with maintaining the soundness of the retirement plans, focus must be placed on long-range goals, rather than the short term receipts and expenses. The actuarial valuation provides this information, allowing the Board to make sound judgements on investment decisions and benefit enhancements.

North Dakota law requires that the Board engage the services of a qualified, competent actuary who will perform an annual actuarial valuation. The Board's actuarial consultant is The Segal Company, Inc. The following pages are the actuarial assumptions and plan provisions which were used to perform the actuarial valuation. The Segal Company also conducted the five-year experience study upon which the current actuarial assumptions are based. The actuarial assumptions used in these valuations were adopted by the Board effective July 1, 2000.

The actuarial valuation for the Public Employees Retirement System includes the PERS Main System, the Judge's System and the National Guard Security/Firefighter's System. Separate valuations are performed for the Highway Patrolmen's Retirement System and the Retiree Health Insurance Credit Program.

**COMMENTS  
FROM THE  
SEGAL  
COMPANY**

**PUBLIC  
EMPLOYEES  
RETIREMENT  
SYSTEM**



THE SEGAL COMPANY

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T 303.714.9900 F 303.714.9990 www.segalco.com

November 12, 2001

State Retirement Board  
North Dakota Public Employees Retirement System  
400 East Broadway, Suite 505  
Bismarck, ND 58501

Re: Introductory Letter for Actuarial Section for North Dakota  
Public Employees Retirement System  
Financial Report for Fiscal Year Ended June 30, 2001

Dear Members of the Board:

The North Dakota Public Employees Retirement System is a funded retirement plan. The System's basic financial objective is to establish and receive contributions that remain relatively level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually by the independent actuary for the North Dakota Public Employees Retirement System. The basic purpose of annual actuarial valuations is to determine the Retirement System's actuarial liabilities and the level percentage-of-payroll contribution rates required to fund the System on an actuarial reserve basis.

**Basic Elements**

The most recent actuarial valuation prepared as of July 1, 2001 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2001 (obtained from diskettes provided by the Retirement System).
- Assets as of June 30, 2001 (obtained from the Retirement System's independent audited financial statements).
- Actuarial assumptions and methods adopted by the Public Employees Retirement Board.

Each annual actuarial valuation involves a projection of the benefits expected to be paid in the future to all members of the Retirement System. The projection of expected future benefit payments is based on the benefit provisions in effect on the actuarial valuation date.

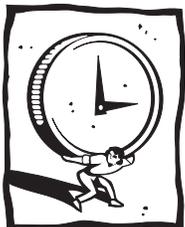
**Actuarial Assumptions**

In addition to utilizing current membership and financial data, an actuarial valuation requires the use of a series of assumptions regarding uncertain future events. Assumptions must be made to project the number of active members who will become eligible for benefits, the amount of those benefits, and the number of years benefits will be payable to current and future benefit recipients.

If the actuarial assumptions prove to be a good indicator of actual emerging experience, the actuarially-determined contribution rates for the existing schedule of benefits will remain relatively level as a percentage of salary. Contribution rates are redetermined in connection with each annual actuarial valuation to reflect actual experience and any benefit changes enacted since the last valuation.

The actuarial assumptions and methods used for funding the Retirement System meet the parameters set for disclosure by the Government Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

The actuarial assumptions used in the July 1, 2001 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement. These assumptions are based, in part, on a study of the actuarial experience for the five-year period ending June 30, 1999.



### Actuarial Funding Method

An actuarial valuation is based on a particular actuarial cost or funding method, which allocates the present value of expected future benefit payments to various time periods. The funding method used in annual actuarial valuations of the North Dakota Public Employees Retirement System is the entry age normal cost method. This method is intended to meet the basic level percent of payroll funding objective.

Under the entry age normal cost funding method, the total actuarially-determined employer contribution rates consist of the normal cost plus the payment required to amortize the unfunded accrued actuarial liability over the established amortization period. Actuarial gains and losses resulting from differences between actual and assumed experience become part of the System's actuarial accrued liabilities.

The Retirement System had no unfunded accrued actuarial liability as of July 1, 2001.

### Calculated and Statutory Contribution Rates

The July 1, 2001 actuarial valuation of the North Dakota Public Employees Retirement System indicates the following contribution requirements:

<u>PERS Plan</u>	<u>Actuarial Required Contribution Rate*</u>	<u>Statutory Employer Contribution Rate</u>	<u>Member Contribution Rate</u>
Main System	3.83%	4.12%	4.00%
Judges	9.03%	14.52%	5.00%
National Guard	3.30%	8.33%	4.00%

•Expressed as a percentage of covered payroll.

### Exhibits

The enclosed supporting exhibits prepared by Segal provide further related information regarding the 2001 valuation. Specifically these exhibits are:

- Actuarial Valuation Certificate
- Actuarial Assumptions and Cost Method
- Changes in Actuarial Assumptions or Cost Methods
- Summary of Plan Provisions
- Plan Amendments
- Active Member Valuation Data
- Retirees and Beneficiaries Added to and Removed from the Rolls
- Solvency Test
- Analysis of Financial Experience
- Schedule of Retired Members by Type of Benefit
- Schedule of Average Benefit Payments

Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

Sincerely,



Leslie L. Thompson A.S.A., M.A.A.A., E.A.  
Vice President and Consulting Actuary

**ACTUARIAL  
VALUATION  
CERTIFICATE**

**NORTH DAKOTA  
PUBLIC EMPLOYEES RETIREMENT SYSTEM**

**NOVEMBER 12, 2001**

*Actuarial Valuation Certificate*

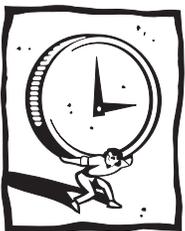
*This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2001 in accordance with generally accepted actuarial principles and practices.*

*The valuation was based on the assumption that the plan is qualified and on information supplied by the Retirement Office with respect to participants and for financial data. We have not verified, and customarily would not verify, such information but we have had no reason to doubt its substantial accuracy.*

*In my opinion, the assumptions used in the aggregate are reasonably related to the experience of the System and to reasonable expectations.*

*Leslie Thompson*

*Leslie L. Thompson, A.S.A., M.A.A.A., E.A.  
Vice President and Consulting Actuary*



**Actuarial Assumptions and Cost Method – Public Employees Retirement System**

**Mortality Tables**

Healthy: 1983 Group Annuity Mortality Table.

Disabled: The Pension Benefit Guaranty Corporation Disabled Life Mortality Table for individuals receiving Social Security disability benefits.

**Disability Incidence Rates**

Before Age 65: 42% of Social Security disability incidence rates for males and 30% for females.

Age 65 and Later: Males .25% per year  
Females .35% per year

**Annual Withdrawal Rates**

Main System and National Guard:

First five years of service:

<u>Age</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
20-29	23%	20%	17%	16%	15%
30-39	17	15	13	12	11
40 & Over	15	12	10	8	6

After five years service:

<u>Age</u>	<u>Male</u>	<u>Female</u>
20 - 24	12%	12%
25 - 29	8	10
30 - 34	5	8
35 - 39	4	6
40 - 44	3	5
45 - 49	3	4
50 & Over	2	3

Judges:

One half of the Main System ultimate rates.

Withdrawal Rates End Upon Eligibility for Early Retirement.

**Retirement Rates for Active Members**

Main System:

<u>Age</u>	<u>Unisex Rate</u>
55	4%
56	6
57	6
58	6
59	6
60	8
61	15
62	35
63	25
64	25
65	40
66	20
67	20
68	20
69	20
70	100

Early Retirement Eligibility: The earlier of age 55 and three years of service or Rule of 85.

Judges:

Ages 62 to 64: 35% per year

Age 65 to 69: 50% per year

Age 70: 100%

Early Retirement Eligibility: The earlier of age 55 and five years of service or Rule of 85.

National Guard:

Age 60: 100%

Early Retirement Eligibility: Age 50 and three years of service.

**Retirement Age for Inactive Vested Members**

Main System and Judges:

The earlier of: Age 65 or the unreduced retirement date for each individual.

National Guard:

Age 55

**Interest Rate**

8.00% per annum, net of investment expenses.

**Administrative Expenses**

Main System: \$710,000 per year

Judges: \$5,000 per year

National Guard: \$5,000 per year

**Salary Scale**

Main System and National Guard:

Less than five years of service: 7.00% per annum

Five or more years of service:

Percentage		Percentage	
<u>Age</u>	<u>Increase</u>	<u>Age</u>	<u>Increase</u>
25	5.90%	45	4.90%
30	5.60	50	4.80
35	5.30	55	4.70
40	5.10	60	4.70

Judges: 5.50% per annum.

**Payroll Growth**

Main System and National Guard:

4.50% per annum

Judges: 4.00% per annum

**Marital Status**

At death, 75% of active male members and 60% of active female members are assumed to be married. Males are assumed to be five years older than their female spouses.

**Part-time Employees**

One full year of service is credited for each future year of service.

**Split Service**

Liabilities are held in both plans based on service in each plan and are based on the actuarial assumptions of the plan in which they are currently active.

**Actuarial Cost Method**

Entry Age Normal Actuarial Cost Method. The unfunded actuarial accrued liability is amortized in installments increasing by the inflation assumption each year over an open 20 year period.

**Actuarial Value of Assets**

Adjusted market value that immediately recognizes interest and dividends. The procedure recognizes 20% of each year's total appreciation (depreciation) beginning with the year of occurrence. After five years, the appreciation (depreciation) is fully recognized.

**Social Security Disability (for Judges' disability benefit offset):**

Eligibility: 50% of disabled Judges

Consumer Price Index Increases: 4.5% per annum

Wage Base Increases: 5.0% per annum

**Workers' Compensation (for Judges' disability benefit offset):** None assumed.**Account Balance Due to****Vested Employer Contribution:**

Participation Under Chapter 54-52.2: if not elected, 50% of active members of the Main System and National Guard. If elected, 100% of active members of the Main System and National Guard.

Contribution: Maximum allowed based on service at the beginning of the Plan year.

**Changes in Actuarial****Assumptions or Cost Methods – Public Employees Retirement System**

There were no changes in actuarial assumptions or in the cost methods since the preceding actuarial valuation.

**Summary of Plan Provisions – Public Employees Retirement System**

This section summarizes the major benefit provisions of the North Dakota Public Employees Retirement System as included in the valuation. It is not intended to be, nor should it be, interpreted as a complete statement of all plan provisions. Benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases.

**1. Normal Service Retirement:**

Eligibility:

Main System and Judges:

Attainment of age 65 or age plus service equal to at least 85 (Rule of 85).

National Guard:

Attainment of age 55 and 3 consecutive years of service.

Benefit:

Main System:

2.00% of final average salary multiplied by service.

Judges:

3.50% of final average salary for the first 10 years of service, 2.80% for the next 10 years of service, and 1.25% for service in excess of 20 years.

National Guard:

2.00% of final average salary multiplied by service.

**2. Early Service Retirement:**

Eligibility:

Main System:

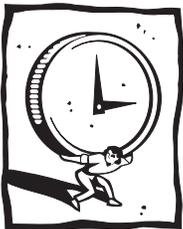
Attainment of age 55 with 3 years of service.

Judges:

Attainment of age 55 with 5 years of service.

National Guard:

Attainment of age 50 with 3 years of service.



Benefit:

Main System:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before age 65 or the age at which the Rule of 85 is met.

Judges:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before age 65.

National Guard:

The Normal Service Retirement Benefit as determined above. A benefit that begins before age 55 is reduced by one-half of one percent for each month before age 55.

### 3. Disability Benefit:

Eligibility:

Six months of service and inability to engage in any substantial gainful activity.

Benefit:

Main System and National Guard:

25% of the member's final average salary at disability, with a minimum of \$100 per month.

Judges:

70% of the member's final average salary at disability, minus social security and worker's compensation benefits paid.

### 4. Deferred Vested Retirement:

Eligibility:

Main System and National Guard:

Three years of service.

Judges: Five years of service.

Benefit:

Main System and Judges:

The Normal Service Retirement Benefit payable at age 65 or the Rule of 85, if earlier. Reduced early retirement benefits can be elected upon attainment of age 55.

National Guard:

The Normal Service Retirement Benefit payable at age 55. Reduced early retirement benefits can be elected upon attainment of age 50.

### 5. Pre-retirement Death Benefits:

Survivor annuity benefits (paid to surviving spouse):

Main System and National Guard:

Eligibility:

Three years of service and before normal retirement.

Benefit:

One of the following options:

- Lump sum payment of accumulated contributions.
- The member's accrued benefit payable for 60 months.
- 50% of the member's accrued benefit (not reduced on account of age) payable for the spouse's lifetime.

Eligibility:

Eligible for normal retirement

Benefit:

Continuation portion of 100% Joint and Survivor Annuity.

*Judges*

Eligibility: Five years of service.

Benefit: One of the following options:

- Lump sum payment of accumulated contributions.
- 100% of the member's accrued benefit (not reduced on account of age) payable for the spouse's lifetime.

Other death benefits:

*Main System, National Guard and Judges:*

Eligibility: Not vested or no surviving spouse.

Benefit: Refund of member's accumulated contributions.

### 6. Refund of Contributions:

Paid to terminated non-vested members and terminated vested members in lieu of a monthly retirement benefit.

### 7. Accumulated Member Contributions:

Member contributions accumulate with interest at the following rates:

<u>Time Period</u>	<u>Interest Rate</u>
Through 6/30/81	5.0%
7/1/81 to 6/30/86	6.0%
After 6/30/86	0.5% less than the actuarial interest rate assumption.

### 8. Standard and Optional Forms of Payment:

Main System and National Guard:

Standard form of payment:

Monthly benefit for life with a refund of the remaining balance (if any) of accumulated member contributions.

Optional forms of payment:

100% joint and survivor annuity, 50% joint and survivor annuity (with pop-up feature), five year certain and life annuity, ten year certain and life annuity, or a level social security income annuity.

Judges:  
 Standard form of payment:  
 50% joint and survivor monthly benefit with a refund of the remaining balance (if any) of accumulated member contributions.

Optional forms of payment:  
 Life annuity, 100% joint and survivor annuity (with pop-up feature), five-year certain and life annuity, ten-year certain and life annuity, or a level Social Security income annuity.

**9. Final Average Salary:**  
 Average of the highest salary received by the member for any 36 months employed during the last 120 months of employment.

**10. Contributions:**  
 Except for the employer contribution rate for the National Guard, the contribution rates are specified in the Century Code and differ between permanent full-time employees and part-time temporary employees. These rates are as follows:

	<u>Full-time Employees</u>	<u>Employer</u>
Main System	4.00%	4.12%
Judges	5.00%	14.52%
National Guard	4.00%	8.33%

Part-time employees in the Main System contribute 8.12%, with no employer contributions.

*Effective January 1, 2000:*  
 A member's account balance includes vested employer contributions equal to the member's contributions to the deferred compensation plan under chapter 54-52.2. The vested employer contribution may not exceed:

1. For months 1-12 of service credit, \$25 or 1% of the member's monthly salary, whichever is greater.
2. For months 13-24 of service credit, \$25 or 2% of the member's monthly salary, whichever is greater.
3. For months 25-36 of service credit, \$25 or 3% of the member's monthly salary, whichever is greater.
4. For service exceeding 36 months, \$25 or 4% of the member's monthly salary, whichever is greater.
5. The vested employer contribution may not exceed 4% of the member's monthly salary. Vested employer contributions are credited monthly to the member's account balance.

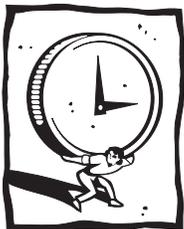
**11. Rollovers:**  
 The fund may accept rollovers from other qualified plans under rules adopted by the Board for the purchase of additional service credit.

**Schedule of Active Member Valuation Data – PERS – 1996-2001**

<u>July 1</u>	<u>Number of Active Members</u>	<b>Main System</b>		
		<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
1996	15,398	\$ 340.7	\$ 22,126	10.8%
1997	15,596	354.2	22,710	2.6
1998	15,954	374.2	23,456	3.3
1999	16,254	392.8	24,165	3.0
2000	16,314	404.6	24,802	2.6
2001	16,694	429.0	25,696	3.6

<u>July 1</u>	<u>Number of Active Members</u>	<b>Judges</b>		
		<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
1996	51	\$ 3.8	\$ 75,181	25.2%
1997	51	3.9	76,673	2.0
1998	49	3.9	79,012	3.1
1999	47	3.9	82,329	4.2
2000	48	4.0	82,906	0.7
2001	47	3.9	83,282	0.5

<u>July 1</u>	<u>Number of Active Members</u>	<b>National Guard</b>		
		<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>Percent Increase In Average Salary</u>
1996	29	\$ .8	\$ 27,977	8.5%
1997	30	.9	29,423	5.2
1998	32	.9	29,169	(0.9)
1999	33	1.0	30,821	5.7
2000	13	.4	31,874	3.4
2001	15	0.5	32,508	2.0



**12. Other Ancillary Benefits:**

The North Dakota Public Employees Retirement System does not have any other ancillary benefits that would affect the current contribution rate.

**Plan Amendments**

Since the preceding actuarial valuation, the following changes in plan provisions have been adopted:

*Main System:*

- Benefit Multiplier – the benefit multiplier increased from 1.89% to 2.00% of final average salary for all years of service for current actives and deferred vested retirees.
- Post-retirement Adjustments – the benefits for those members in pay status as of July 31, 2001 increased by 6.00% effective August 1, 2001.
- Early Service Retirement Benefit – a benefit that begins before age 65 (or Rule of 85, if earlier) is reduced by one-half of one percent for each month before the earlier of age 65 or the age at which the Rule of 85 would be met. Previously, the reduction was from age 65.

*Judges:*

- Normal Form of Benefit – the normal form of benefit was changed from a life annuity to a 50% joint and survivor annuity.
- Post-retirement Adjustments – the benefits for those members in pay status as of December 31, 2001 increase by 2.00%, effective January 1, 2002. Also, the benefits for those members in pay status as of December 31, 2002 increase by 2.00%, effective January 1, 2003.

*National Guard:*

- Benefit Multiplier – the benefit multiplier increased from 1.89% to 2.00% of final average salary for all years of service for current actives and deferred vested retirees.
- Post-retirement Adjustments – the benefits for those members in pay status as of July 31, 2001 increased by 6.00% effective August 1, 2001.

**Retirees and Beneficiaries Added to and Removed from the Rolls – PERS – 1996-2001**

**Main System**

Plan Year	Beginning Balance	Additions	(Removals)	Ending Balance	Average Monthly Benefit	Annual Pension Benefits	% Increase In Annual Benefits
1996	3,828	345	(137)	4,036	\$ 436	\$ 21.1	10.5%
1997	4,036	306	(149)	4,193	504	25.3	19.9
1998	4,193	384	(160)	4,417	523	27.7	9.5
1999	4,417	407	(154)	4,670	546	30.6	10.5
2000	4,670	357	(165)	4,862	600	35.0	14.4
2001	4,862	365	(171)	5,056	653	39.6	13.1

**Judges**

Plan Year	Beginning Balance	Additions	(Removals)	Ending Balance	Average Monthly Benefit	Annual Pension Benefits	% Increase In Annual Benefits
1996	8	2	0	10	\$ 1,347	\$ 161,632	26.4%
1997	10	0	0	10	1,578	189,332	17.1
1998	10	2	0	12	1,719	247,487	30.7
1999	12	4	(1)	15	1,640	295,170	19.3
2000	15	1	(1)	15	1,975	355,463	20.4
2001	15	2	(1)	16	2,222	426,631	20.0

**National Guard**

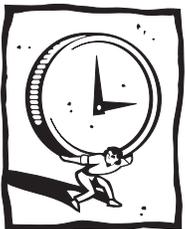
Plan Year	Beginning Balance	Additions	(Removals)	Ending Balance	Average Monthly Benefit	Annual Pension Benefits	% Increase In Annual Benefits
1996	0	1	0	1	\$ 619	\$ 7,425	N/A
1997	1	0	0	1	631	7,573	2.0%
1998	1	1	0	2	1,073	25,743	239.9
1999	2	0	0	2	1,158	27,802	8.0
2000	2	0	0	2	1,158	27,802	0.0
2001	2	1	0	3	998	35,916	29.2

**Solvency Test – PERS  
1996-2001**

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active member contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active members. In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing the funded portion of liability 3 will increase over time.

(Amounts in Millions)

July 1	Aggregate Actuarial Accrued Liabilities			Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Assets		
	Member Contributions (1)	Retirees and Beneficiaries, Inactive and Pay- Status Members (2)	Active Member Employer Financed Portion (3)		(1)	(2)	(3)
1996	\$ 177.7	\$ 206.6	\$ 216.6	\$ 621.7	100%	100%	100%
1997	193.2	224.0	229.7	704.5	100	100	100
1998	204.9	256.4	258.8	801.3	100	100	100
1999	217.9	305.7	319.1	917.0	100	100	100
2000	235.1	324.7	332.1	1,027.0	100	100	100
2001	258.9	368.4	381.4	1,115.3	100	100	100



## Analysis of Financial Experience – PERS

Changes in the Contribution Rate During Years Ended June 30  
Resulting from Differences Between Assumed Experience & Actual Experience

### Main System

<u>Plan Year</u>	<u>June 30, 1998</u>	<u>June 30, 1999</u>	<u>June 30, 2000</u>	<u>June 30, 2001</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>2.94%</b>	<b>2.51%</b>	<b>3.34%</b>	<b>2.32%</b>
Death after Retirement	0.16	-0.04	0.00	0.04
Death-in-Service	0.01	0.00	0.02	0.01
Withdrawal From Employment	0.06	0.02	-0.03	0.07
Age and Service Retirements	-0.02	-0.03	-0.07	0.09
Financial Experience-Investments	-0.65	-0.94	-0.87	-0.24
Pay Increases	-0.06	0.05	0.00	0.01
Contribution Income	-0.04	-0.10	-0.06	-0.12
Administrative Expenses	0.00	0.00	0.00	0.04
New and Reinstated Members	-0.01	0.01	0.03	0.04
Demographic Changes	0.05	0.18	0.19	0.13
Assumption Changes	0.00	0.03	-0.34	0.00
Amendments	0.00	1.60	0.00	1.36
Miscellaneous	0.07	0.05	0.05	0.02
Impact of Enhanced Benefits due to Portability Enhancement Provision	0.00	0.00	0.06	0.06
<b>Employer Cost Rate at End of Year</b>	<b>2.51%</b>	<b>3.34%</b>	<b>2.32%</b>	<b>3.83%</b>

### Judges

<u>Plan Year</u>	<u>June 30, 1998</u>	<u>June 30, 1999</u>	<u>June 30, 2000</u>	<u>June 30, 2001</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>9.18%</b>	<b>7.35%</b>	<b>7.36%</b>	<b>6.50%</b>
Plan Experience	-2.01	-2.01	-2.31	-2.17
Assumption Changes	0.00	0.00	1.18	0.00
Amendments	0.00	1.79	0.00	4.43
Miscellaneous	0.18	0.23	0.27	0.27
<b>Employer Cost Rate at End of Year</b>	<b>7.35%</b>	<b>7.36%</b>	<b>6.50%</b>	<b>9.03%</b>

### National Guard

<u>Plan Year</u>	<u>June 30, 1998</u>	<u>June 30, 1999</u>	<u>June 30, 2000</u>	<u>June 30, 2001</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>2.81%</b>	<b>3.44%</b>	<b>3.84%</b>	<b>1.74%</b>
Plan Experience	-4.77	-1.02	-2.29	0.14
Change in Amortization Schedule	5.40	0.00	0.00	0.00
Amendments	0.00	1.36	0.00	1.28
Miscellaneous	0.00	0.06	0.19	0.14
<b>Employer Cost Rate at End of Year</b>	<b>3.44%</b>	<b>3.84%</b>	<b>1.74%</b>	<b>3.30%</b>

**COMMENTS  
FROM  
THE SEGAL  
COMPANY**

**HIGHWAY  
PATROLMEN'S  
RETIREMENT  
SYSTEM**



THE SEGAL COMPANY

6300 S. Syracuse Way, Suite 750 Englewood, CO 80111-7302  
T 303.714.9900 F 303.714.9990 www.segalco.com

November 9, 2001

State Retirement Board  
North Dakota Public Employees Retirement System  
400 East Broadway, Suite 505  
Bismarck, ND 58502

Re: Introductory Letter for Actuarial Section for North Dakota  
Highway Patrolmen's Retirement System  
Financial Report for Fiscal Year Ended June 30, 2001

Dear Members of the Board:

The North Dakota Highway Patrolmen's Retirement System is a funded retirement plan. The Retirement System's basic financial objective is to establish and receive contributions that remain relatively level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually by the independent actuary for the North Dakota Highway Patrolmen's Retirement System. The basic purpose of annual actuarial valuations is to determine the Retirement System's actuarial liabilities and the level percentage-of-payroll contribution rates required to fund on an actuarial reserve basis.

**Basic Elements**

The most recent actuarial valuation prepared as of July 1, 2001 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2001 (obtained from diskettes provided by the Retirement System).
- Assets as of June 30, 2001 (obtained from the Retirement System's independent audited financial statements).
- Actuarial assumptions and methods adopted by the Public Employees Retirement Board.

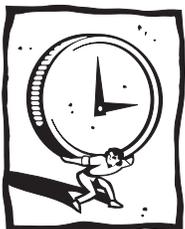
Each annual actuarial valuation involves a projection of the benefits expected to be paid in the future to all members of the Retirement System. The projection of expected future benefit payments is based on the benefit provisions in effect on the actuarial valuation date.

**Actuarial Assumptions**

In addition to utilizing current membership and financial data, an actuarial valuation requires the use of a series of assumptions regarding uncertain future events. Assumptions must be made to project the number of active members who will become eligible for benefits, the amount of those benefits, and the number of years benefits will be payable to current and future benefit recipients.

If the actuarial assumptions prove to be a good indicator of actual emerging experience, the actuarially-determined contribution rates for the existing schedule of benefits will remain relatively level as a percentage of salary. Contribution rates are redetermined in connection with each annual actuarial valuation to reflect actual experience and any benefit changes enacted since the last valuation.

The actuarial assumptions used in the July 1, 2001 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement. These assumptions are based, in part, on a study of the actuarial experience of the System for the five-year period ending June 30, 1999.



### Actuarial Funding Method

An actuarial valuation is based on a particular actuarial cost or funding method, which allocates the present value of expected future benefit payments to various time periods. The funding method used in annual actuarial valuations of the North Dakota Highway Patrolmen's Retirement System is the entry age normal cost method. This method is intended to meet the basic level percent of payroll funding objective.

Under the entry age normal cost funding method, the total actuarially-determined employer contribution rates consist of the normal cost plus the payment required to amortize the unfunded accrued actuarial liability over the established amortization period. Actuarial gains and losses resulting from differences between actual and assumed experience become part of the System's accrued actuarial liabilities.

The actuarial assumptions and methods used for funding the Retirement System meet the parameters set for disclosure by the Governmental Accounting Standards Board (GASB) Statement #25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

The North Dakota Highway Patrolmen's Retirement Fund had no unfunded actuarial accrued liability as of July 1, 2001.

### Calculated and Statutory Contribution Rates

The July 1, 2001 actuarial valuation of the North Dakota Highway Patrolmen's Retirement Fund indicates the following contribution requirements, expressed as a percentage of covered payroll.

<u>Actuarial Required Contribution Rate</u>	<u>Statutory Employer Contribution Rate</u>	<u>Member Contribution Rate</u>
12.13%	16.70%	10.30%

### Exhibits

The enclosed supporting exhibits provide further related information regarding the 2001 valuation. Specifically, those exhibits are:

- Actuarial Valuation Certificate
- Actuarial Assumptions and Cost Method
- Changes in Actuarial Assumptions or Cost Methods
- Summary of Plan Provisions
- Plan Amendments
- Active Member Valuation Data
- Retirees and Beneficiaries Added to and Removed from Rolls
- Solvency Test
- Analysis of Financial Experience
- Schedule of Retired Members by Type of Benefit
- Schedule of Average Benefit Payments

Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

Sincerely,



Leslie L. Thompson A.S.A., M.A.A.A., E.A.  
Vice President and Consulting Actuary

**ACTUARIAL  
VALUATION  
CERTIFICATE**

**NORTH DAKOTA  
HIGHWAY PATROLMEN'S RETIREMENT SYSTEM**

**NOVEMBER 9, 2001**

*Actuarial Valuation Certificate*

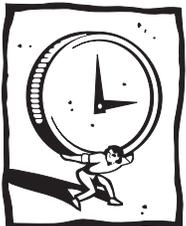
*This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2001 in accordance with generally accepted actuarial principles and practices.*

*The valuation was based on the assumption that the plan is qualified and on information supplied by the Retirement Office with respect to participants and for financial data. We have not verified, and customarily would not verify, such information but we have had no reason to doubt its substantial accuracy.*

*In my opinion, the assumptions used in the aggregate are reasonably related to the experience of the System and to reasonable expectations.*

*Leslie L. Thompson*

Leslie L. Thompson, A.S.A., M.A.A.A., E.A.  
Vice President and Consulting Actuary



## Actuarial Assumptions and Cost Method – Highway Patrolmen’s Retirement System Mortality Tables

Healthy: 1983 Group Annuity Mortality Table.

Disabled: Pension Benefit Guaranty Corporation Disabled Life Mortality Table for Individuals Receiving Social Security Disability Benefits.

### Annual Withdrawal Rates

First five years of service: 5%

After five years of service:

Under age 35: 2% at each age

Age 35 or older: 1% at each age

Withdrawal rates end upon eligibility for early retirement (age 50 and 5 years of service.)

### Disability Rates

Age based rates. Sample rates:

<u>Age</u>	<u>Rate</u>
25	0.05%
30	0.12
35	0.20
40	0.30
45	0.37
50	0.38
55	0.55

### Retirement Rates

The following annual rates apply for active members:

<u>Age</u>	<u>Eligible for Rule of 80</u>	<u>Not Eligible for Rule of 80</u>
50-54	100%	50%
55+	100%	100%

Inactive vested members eligible for deferred benefits are assumed to retire at age 55.

### Interest Rate

8.00% per annum, net of investment expenses.

### Administrative Expenses

\$16,000 per year.

### Salary Scale

Less than five years of service: 7.00% per annum

Five or more years of service:

<u>Age</u>	<u>Percentage Increase</u>
25	5.90%
30	5.60
35	5.30
40	5.10
45	4.90
50	4.80
55	4.70

### Inflation

4.50% per annum.

### Marital Status

At death, 90% of all members are assumed to have spouses. Males are assumed to be three years older than their female spouses.

### Workers’ Compensation

None assumed for disability benefit offset.

### Indexing for Benefits of Inactive Vested Members

5% per annum.

### Split Service

Liabilities are held in both plans based on service in each plan, and are based on the actuarial assumptions of the plan in which they are currently active.

### Actuarial Cost Method

Entry Age Normal Actuarial Cost Method. The unfunded actuarial accrued liability is amortized in installments assuming 4.5% inflation assumption and an open 20-year period.

### Actuarial Value of Assets

Adjusted market value that immediately recognizes interest and dividends. The procedure recognizes 20% of each Plan Year's total appreciation (depreciation) beginning with the year of occurrence. After five years, the appreciation (depreciation) is fully recognized.

### Changes in Actuarial Assumptions or Cost Methods – Highway Patrolmen’s Retirement System

There were no changes in actuarial assumptions or the actuarial cost method since the preceding valuation.

### Summary of Plan Provisions – Highway Patrolmen’s Retirement System

This section summarizes the major benefit provisions of the North Dakota Highway Patrolmen's Retirement System as included in the valuation. It is not intended to be, nor should it be, interpreted as a complete statement of all plan provisions. Benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases.

#### 1. Normal Service Retirement:

Eligibility:

Attainment of age 55 with at least 10 years of eligible employment or with age plus service equal to at least 80 (Rule of 80).

Benefit:

3.60% of final average salary for the first 25 years of service and 1.75% for service in excess of 25 years.

**2. Early Service Retirement:**

Eligibility:  
Attainment of age 50 with 10 years of eligible employment.

Benefit:  
The Normal Service Retirement Benefit as determined above. A benefit that begins before age 55 (or Rule of 80, if earlier) is reduced by one-half of one percent for each month before age 55.

**3. Disability Benefit:**

Eligibility:  
Accumulation of six months of service and inability to engage in substantial gainful activity.

Benefit:  
70% of the member's final average salary at disability minus workers' compensation, with a minimum of \$100 per month.

**4. Deferred Retirement:**

Eligibility:  
10 years of eligible employment.

Benefit:  
The Normal Service Retirement Benefit payable at age 55 or the Rule of 80, if earlier. Vested benefits are indexed at a rate set by the Retirement Board based on the increase in final average salary from date of termination to benefit commencement date, as follows:

Year	Average Monthly Increase	3-Year Average Increase Factor	Cumulative Salary Factor
7/1/92	2.46%	-	-
7/1/93	3.57	-	1.0000
7/1/94	3.00	1.0301	1.0301
7/1/95	2.00	1.0286	1.0595
7/1/96	2.00	1.0233	1.0842
7/1/97	3.00	1.0233	1.1095
7/1/98	1.80	1.0227	1.1347
7/1/99	1.26	1.0202	1.1576
7/1/00	2.00	1.0169	1.1771
7/1/01	1.81	1.0169	1.1971

Reduced early retirement benefits can be elected upon attainment of age 50.

**5. Pre-retirement Death Benefits:**

Survivor annuity benefits (paid to surviving spouse):  
Eligibility:  
Ten years of service.

Benefit:

One of the following options:  

- Lump sum payment of accumulated contributions.
- Monthly payment of the member's accrued benefit for 60 months.
- 50% of the member's accrued benefit (not reduced on account of age) for the spouse's lifetime.

Other death benefits:

Eligibility: Less than 10 years of service or no surviving spouse.

Benefit: Refund of member's accumulated contributions.

**6. Normal and Optional Forms of Payment:**

Normal form of payment:  
Monthly benefit for life with 50% of the benefit continuing for the life of the surviving spouse (if any).

Optional forms of payment:  
100% joint and survivor annuity, five year certain and life annuity, and ten year certain and life annuity.

**7. Final Average Salary:**

Average of the highest salary received by the member for any 36 consecutive months employed during the last 120 months of employment.

**8. Contributions:**

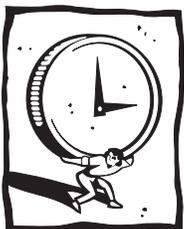
Members:  
10.30% of monthly salary.

State of North Dakota:  
16.70% of the monthly salary for each participating member.

**Plan Amendments – Highway Patrolmen's Retirement System**

There were three plan amendments since the preceding valuation.

- The benefit multiplier was increased from 3.4% to 3.6% for the first 25 years of service. Years of service in excess of 25 years remain at the 1.75% accrual rate.
- All contributors who retired before August 1, 2001, or their beneficiaries, are entitled to receive a benefit based on the benefit multiplier indicated above, with the increased benefits payable August 1, 2001.
- All contributors who became disabled before August 1, 2001, or their beneficiaries, are entitled to receive a 6.0% increase in their benefit, with the increased benefit payable August 1, 2001.



**Schedule of Active Member Valuation Data – HPRS  
1996 to 2001**

<u>July 1</u>	<u>Number of Active Members</u>	<u>Total Payroll (millions)</u>	<u>Average Annual Salary</u>	<u>% Change in Average Salary</u>
1996	112	\$ 3.8	\$ 33,587	11.2%
1997	124	4.2	33,518	(0.2)
1998	121	4.3	35,924	7.2
1999	124	4.5	36,011	0.2
2000	122	4.7	38,152	5.9
2001	124	4.9	39,302	3.0

**Retirees and Beneficiaries Added to and Removed from the Rolls – HPRS**

<u>Plan Year</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Removals)</u>	<u>Ending Balance</u>	<u>Average Monthly Benefit</u>	<u>Annual Pension Benefits</u>	<u>% Increase in Annual Benefits</u>
1996	63	7	(1)	69	\$ 1,411	\$ 1,168,081	27.6%
1997	69	3	(2)	70	1,570	1,319,151	12.9
1998	70	4	(2)	72	1,605	1,386,573	5.1
1999	72	7	(2)	77	1,748	1,614,996	16.5
2000	77	4	(1)	80	1,723	1,654,536	2.4
2001	80	2	(1)	81	1,881	1,828,468	10.5

### Solvency Test – HPRS 1996-2001

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active member contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active members.

In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time.

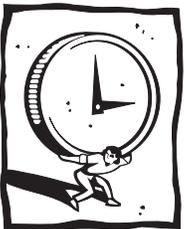
(Amounts in Millions)

July 1	Aggregate Actuarial Accrued Liabilities			Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Assets		
	Member Contributions (1)	Retirees and Beneficiaries, Inactive and Pay- Status Members (2)	Active Member Employer Financed Portion (3)		(1)	(2)	(3)
1996	\$ 5.6	\$ 12.1	\$ 6.1	\$ 22.2	100%	100%	74%
1997	6.1	13.6	7.8	24.8	100	100	65
1998	6.8	14.1	8.1	28.1	100	100	89
1999	7.0	16.5	8.7	32.0	100	100	98
2000	7.7	16.7	9.6	35.9	100	100	100
2001	8.4	18.4	11.3	38.8	100	100	100

### Analysis of Financial Experience – HPRS

Changes in the Contribution Rate During Years Ended June 30  
Resulting from Differences Between Assumed Experience and Actual Experience

Plan Year	June 30, 1998	June 30, 1999	June 30, 2000	June 30, 2001
<b>Employer Cost Rate at Beginning of Year</b>	<b>14.66%</b>	<b>11.99%</b>	<b>11.87%</b>	<b>9.18%</b>
Plan Experience	-2.67	-2.96	-3.68	-1.16
Assumption Changes	0.00	0.00	0.99	0.00
Amendments	0.00	2.84	0.00	4.07
Miscellaneous	0.00	0.00	0.00	0.04
<b>Employer Cost Rate at End of Year</b>	<b>11.99%</b>	<b>11.87%</b>	<b>9.18%</b>	<b>12.13%</b>





**THE SEGAL COMPANY**

6300 S. Syracuse Way, Suite 750 Englewood, CO 80111-7302  
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November 9, 2001

State Retirement Board  
 North Dakota Public Employees Retirement System  
 400 East Broadway, Suite 505  
 Bismarck, ND 58502

Re: Introductory Letter for Actuarial Section for North Dakota  
 Public Employees Retirement System Retiree Health Insurance Credit Fund  
 Financial Report for Fiscal Year Ended June 30, 2001

Dear Members of the Board:

The North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund is a funded retiree health plan. The program's basic financial objective is to establish and receive contributions that remain relatively level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually by the independent actuary for the North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund. The basic purpose of annual actuarial valuations is to determine the System's actuarial liabilities and the level percentage-of-payroll contribution rates required to fund the System on an actuarial reserve basis.

**Basic Elements**

The most recent actuarial valuation prepared as of July 1, 2001 is based on the following major elements:

- Current benefit provisions (as specified in the North Dakota Century Code).
- Membership data as of June 30, 2001 (obtained from diskettes provided by the Retirement System).
- Assets as of June 30, 2001 (obtained from the Retirement System's independent audited financial statements).
- Actuarial assumptions and methods adopted by the Public Employees Retirement Board.

Each annual actuarial valuation involves a projection of the benefits expected to be paid in the future to all members of the Retirement System. The projection of expected future benefit payments is based on the benefit provisions in effect on the actuarial valuation date.

**Actuarial Assumptions**

In addition to utilizing current membership and financial data, an actuarial valuation requires the use of a series of assumptions regarding uncertain future events. Assumptions must be made to project the number of active members who will become eligible for benefits, the amount of those benefits, and the number of years benefits will be payable to current and future benefit recipients.

If the actuarial assumptions prove to be a good indicator of actual emerging experience, the actuarially-determined contribution rates for the existing schedule of benefits will remain relatively level as a percentage of salary. Contribution rates are redetermined in connection with each annual actuarial valuation to recognize actual experience and any benefit changes enacted since the last valuation.

The actuarial assumptions used in the July 1, 2001 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.

**COMMENTS  
 FROM  
 THE SEGAL  
 COMPANY**

**RETIREE  
 HEALTH  
 INSURANCE  
 CREDIT FUND**

**Actuarial Funding Method**

An actuarial valuation is based on a particular actuarial cost or funding method, which allocates the present value of expected future benefit payments to various time periods. The funding method used in annual actuarial valuations of the North Dakota Retiree Health Insurance Credit Fund is the projected unit credit cost method.

Under the projected unit credit cost funding method, the total actuarially-determined employer contribution rates consist of the normal cost plus the payment required to amortize the unfunded actuarial accrued liability over the established amortization period. Actuarial gains and losses resulting from differences between actual and assumed experience become part of the System's actuarial accrued liabilities.

The North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund's unfunded actuarial accrued liability amounted to about \$40.7 million as of July 1, 2001. The unfunded actuarial accrued liability is being amortized by level percentage-of-payroll payments over a fixed period that ends June 30, 2030.

**Calculated and Statutory Contribution Rates**

The July 1, 2001 actuarial valuation of the North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund indicates the following contribution requirements: the actuarially determined employer-pay contribution rate is .99%, while the statutory contribution rate is 1.00% of payroll.

**Exhibits**

The enclosed supporting exhibits provide further related information regarding the 2001 valuation. Specifically, they are:

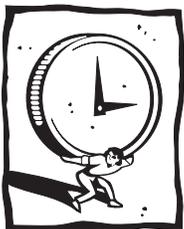
- Actuarial Valuation Certificate
- Actuarial Assumptions and Cost Method
- Changes in Actuarial Assumptions or Cost Methods
- Summary of Plan Provisions
- Plan Amendments
- Retired Members, Average Benefit, and Active Member/Retiree Comparison
- Analysis of Financial Experience
- Assets and Actuarial Accrued Liabilities

Segal did not prepare the Schedule of Employer Contributions and the Schedule of Funding Progress for the financial section of the CAFR.

Sincerely,



Leslie L. Thompson A.S.A., M.A.A.A., E.A.  
Vice President and Consulting Actuary



**ACTUARIAL  
VALUATION  
CERTIFICATE**

NORTH DAKOTA  
PUBLIC EMPLOYEES RETIREMENT SYSTEM  
RETIREE HEALTH INSURANCE CREDIT FUND

NOVEMBER 9, 2001

*Actuarial Valuation Certificate*

*This is to certify that we have prepared an Actuarial Valuation of the System as of July 1, 2001 in accordance with generally accepted actuarial principles and practices.*

*The valuation was based on the assumption that the plan is qualified and on information supplied by the Retirement Office with respect to participants and for financial data. We have not verified, and customarily would not verify, such information but we have no reason to doubt its substantial accuracy.*

*In my opinion, the assumptions used in the aggregate are reasonably related to the experience of the System and to reasonable expectations.*

*Leslie L. Thompson*

*Leslie L. Thompson, A.S.A., M.A.A.A., E.A.  
Vice President and Consulting Actuary*

**Actuarial Assumptions and Cost Method – Retiree Health Insurance Credit Fund**

**Mortality Tables**

Healthy: 1983 Group Annuity Mortality Table.

Disabled: The Pension Benefit Guaranty Corporation Disabled Life Mortality Table for Individuals Receiving Social Security Benefits.

**Annual Withdrawal Rates**

Different withdrawal rates are applied to the active members of the Main System, Highway Patrol, Judges, and National Guard. Rates for the Main System are detailed below. The withdrawal assumptions applied to the active members in the other groups are detailed in the respective actuarial sections.

Select and ultimate rates are used for active members of the Main System. During the select period (first five years of active employment) rates vary by entry age and year of employment. During the ultimate period (active employment after the first five years), rates vary by attained age and sex.

Select Period

<u>Age</u>	<u>Year of Employment</u>				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
20 - 29	23%	20%	17%	16%	15%
30 - 39	17	15	13	12	11
40 & Over	15	12	10	8	6

Ultimate Period

<u>Age</u>	<u>Male</u>	<u>Female</u>
20-24	12%	12%
25-29	8	10
30-34	5	8
35-39	4	6
40-44	3	5
45-49	3	4
50 & Over	2	3

**Disability Incidence Rates**

Different disability incidence rates are applied to the active members of PERS and the Highway Patrol. The disability rates applied to the Highway Patrol are described in the respective valuation section.

Sample rates for PERS are:

<u>Age</u>	<u>Males</u>	<u>Females</u>
25	0.036%	0.026%
30	0.046	0.033
35	0.062	0.044
40	0.092	0.066
45	0.151	0.108
50	0.255	0.182
55	0.424	0.303

**Retirement Rates for Active Members**

Different retirement rates are applied to the active members of the Main System, Highway Patrol, Judges and National Guard. Retirement rates for the Main System are detailed below. The retirement rates applied to the active members of the other groups are detailed in the respective actuarial sections.

Rates for the Main System are as follows:

<u>Age</u>	<u>Unisex Rate</u>
55	4%
56	6
57	6
58	6
59	6
60	8
61	15
62	35
63	25
64	25
65	40
66	20
67	20
68	20
69	20
70	100

**Participation Rates**

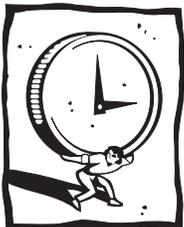
The percentage of eligible members electing coverage under the health insurance program and receiving the stipend varies with years of service. Rates are as follows:

Main System and National Guard:

<u>Years of Service</u>	<u>Participation Rate</u>
3-4	25%
5-9	50
10-14	70
15-19	80
20-24	95
25+	100

Judges:

<u>Years of Service</u>	<u>Participation Rate</u>
5-9	50%
10-14	70
15-19	80
20-24	95
25+	100



**Joint and Survivor Option Election Rates**

Main System, Judges and National Guard:

50% of male retirees and 15% of female retirees will elect a joint and survivor form of pension from the retirement system in which they participated.

Highway Patrol:

90% of retirees receive a joint and survivor form of pension from the retirement system.

**Interest Rate**

8.0% per annum, net of investment expenses

**Inflation**

4.50% per annum

**Administrative Expenses**

\$65,000 per year.

**Marital Status:**

Main System, Judges and National Guard:

At death, 75% of active male members and 60% of active female members are assumed to have spouses. Males are assumed to be five years older than their female spouses.

Highway Patrol:

At death, 90% of all active members are assumed to have spouses. Males are assumed to be three years older than their female spouses.

**Optional Defined Contribution Plan**

The actuarial assumptions used to determine the liabilities for the members of the defined contribution plan are the same as those used for the Main System.

**Actuarial Cost Method**

Projected Unit Credit Actuarial Cost Method.

The unfunded actuarial accrued liability is amortized in installments assuming 4.5% inflation assumption over a fixed period which ends on June 30, 2030.

**Actuarial Value of Assets**

Adjusted market value that immediately recognizes interest and dividends. The procedure recognizes 20% of each year's total appreciation (depreciation) beginning with the year of occurrence. After five years, the appreciation (depreciation) is fully recognized.

**Changes in Actuarial Assumptions or Cost Methods – Retiree Health Insurance Credit Fund**

There were no changes in actuarial assumptions or the cost method since the preceding actuarial valuation.

**Summary of Plan Provisions – Retiree Health Insurance Credit Fund**

This section summarizes the major benefit provisions of the North Dakota Public Employees Retirement System Retiree Health Insurance Credit Fund as included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions. Benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases.

**1. Normal Retirement**

Age requirement:

Main System and Judges: Age 65 or Rule of 85.

Highway Patrol: Age 55 or Rule of 80.

National Guard: Age 55.

Service requirement:

Main System and Judges: None.

Highway Patrol: 10 years.

National Guard: 3 consecutive years.

Other requirements:

Participation in the North Dakota Uniform Group Insurance Program.

Benefit amount:

A monthly stipend equal to \$4.50 times service.

**2. Early Retirement**

Age requirement:

Main System and Judges: Age 55.

Highway Patrol and National Guard: Age 50.

Service requirement:

Main System and National Guard: 3 years.

Judges: 5 years.

Highway Patrol: 10 years.

Benefit amount:

Main System and Judges:

The Normal Retirement Benefit reduced by 3% for retirements at age 64 and an additional 6% for each year by which retirement precedes age 64.

Benefits are unreduced upon the fulfillment of the Rule of 85.

Highway Patrol and National Guard:

The Normal Retirement Benefit reduced by 3% for retirements at age 54 and an additional 6% for each year by which retirement precedes age 54.

Benefits are unreduced upon the fulfillment of the Rule of 80.

**3. Disability Retirement**

Age requirement: None  
Service requirement: 6 months  
Other requirements: As required by applicable pension plan  
Benefit amount: Same as Normal Retirement Benefit

**4. Pre-Retirement Death Benefit**

Age requirement: None  
Service requirement:  
Main System and National Guard: 3 years.  
Judges: 5 years.  
Highway Patrol: 10 years.

Benefit amount:  
Same as Normal Retirement Benefit accrued to the date of the member's death, payable for as long as benefits are payable to the spouse from the Retirement System under the standard option.

**5. Post-Retirement Death Benefit**

Following a retired member's death, the Retiree Health Insurance Credit Fund will: (1) continue benefits to the member's spouse if the spouse continues to receive a monthly pension from member's Retirement Plan or (2) provide benefits to the member's spouse if the member selected a joint and survivor option from the Retiree Health Insurance Credit Fund.

**6. Alternative Options**

If benefits from the member's Retirement Plan are paid under single life, level Social Security, or 5 or 10 year term certain options (without a continuation to the spouse after the certain period ends), actuarially reduced health credit benefits may be elected for the spouse. Alternative options in the Retiree Health Insurance Credit Fund include 50% and 100% joint and survivor annuities.

**7. Service**

Members receive credit for each year and month of employment.

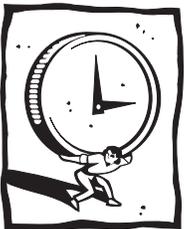
**8. Contributions**

The employer contributes 1.00% of covered salaries and wages for participating employees.

**Plan Amendments -**

**Retiree Health Insurance Credit Fund**

There have been no changes in the plan provisions since the preceding actuarial valuation.



**Retired Members, Average Benefit, and Active Member/Retiree Comparison –  
Retiree Health Insurance Credit Fund  
1996 - 2001**

<u>July 1</u>	<u>Number of Retired Members</u>	<u>Average Annual Benefit</u>	<u>Active Members Per Retiree</u>
1996	2,469	\$ 1,128	6.3
1997	2,639	1,116	6.0
1998	2,812	1,115	5.7
1999	3,015	1,109	5.5
2000	3,169	1,116	5.3
2001	3,306	1,116	5.2

**Funding Progress – Retiree Health Insurance Credit Fund  
1996 - 2001**

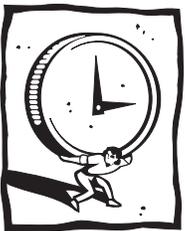
(Amounts in Millions)

<u>July 1</u>	<u>Total Actuarial Accrued Liability</u>	<u>Total Actuarial Value of Assets</u>	<u>Assets as of % of Total Actuarial Accrued Liability</u>
1996	\$ 47.0	\$ 11.4	24.3%
1997	51.8	13.7	26.4
1998	54.7	16.3	29.8
1999	57.6	19.4	33.7
2000	61.9	22.6	36.5
2001	65.5	24.8	37.9

**Analysis of Financial Experience –  
Retiree Health Insurance Credit Fund**

Changes in the Contribution Rate During Years Ended June 30  
Resulting from Differences Between Assumed Experience & Actual Experience

Plan Year	<u>June 30, 1998</u>	<u>June 30, 1999</u>	<u>June 30, 2000</u>	<u>June 30, 2001</u>
<b>Employer Cost Rate at Beginning of Year</b>	<b>1.04%</b>	<b>1.02%</b>	<b>0.99%</b>	<b>1.02%</b>
Plan Experience	-0.02	-0.03	0.00	-0.03
Assumption and Method Changes	0.00	0.00	0.03	0.00
Miscellaneous	0.00	0.00	0.00	0.00
<b>Employer Cost Rate at End of Year</b>	<b>1.02%</b>	<b>0.99%</b>	<b>1.02%</b>	<b>0.99%</b>



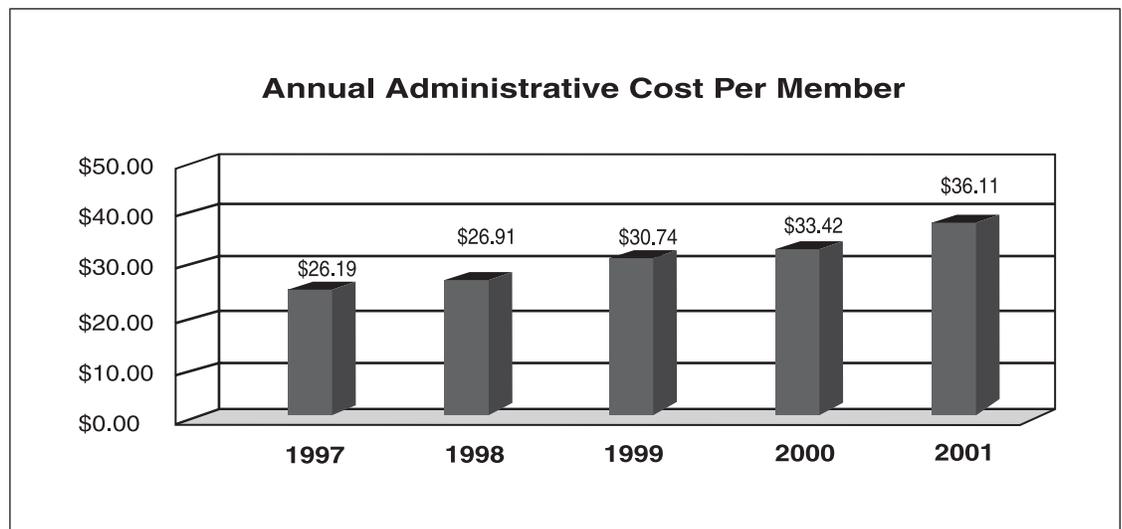
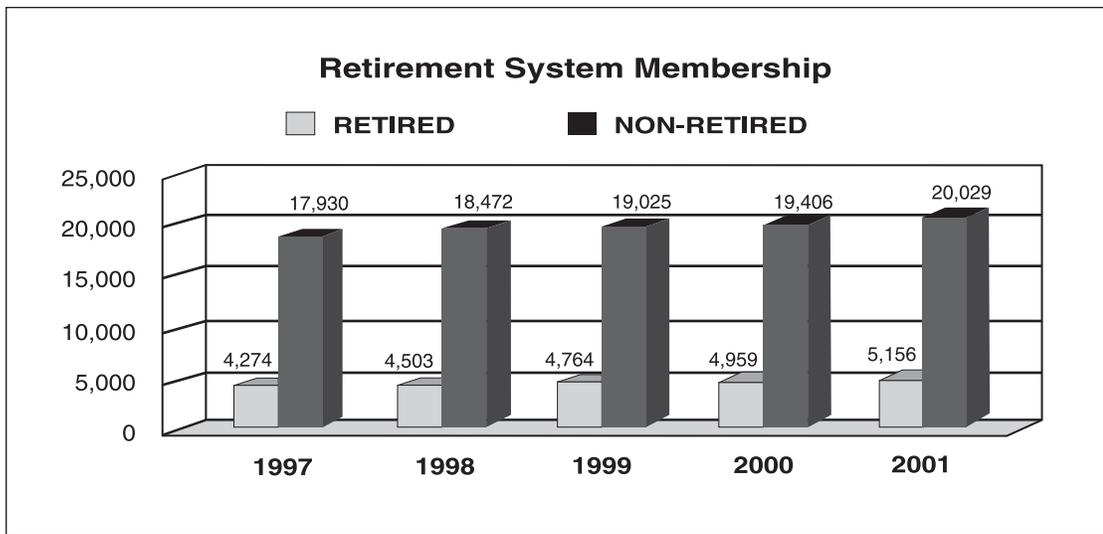


# STATISTICAL SECTION

**Retirement System Membership – PERS and HPRS  
As of June 30**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
State Agencies	10,718	10,958	11,079	11,025	11,351
Cities	301	322	362	377	390
Counties	3,063	3,108	3,213	3,311	3,313
School Districts	3,488	3,714	3,992	4,302	4,574
Other Political Subdivisions	<u>360</u>	<u>370</u>	<u>379</u>	<u>391</u>	<u>401</u>
Total Non-Retired <sup>(1)</sup>	17,930	18,472	19,025	19,406	20,029
Retired Members & Beneficiaries	<u>4,274</u>	<u>4,503</u>	<u>4,764</u>	<u>4,959</u>	<u>5,156</u>
Total Membership	22,204	22,975	23,789	24,365	25,185
Administrative Expenses	\$ 581,488	\$ 618,230	\$ 731,362	\$ 814,350	\$ 909,350
Administrative Cost per Member	\$ 26.19	\$ 26.91	\$ 30.74	\$ 33.42	\$ 36.11

<sup>(1)</sup> Total non-retired members includes all contributing members plus all non-contributing members who have not begun to receive retirement benefits.



**Revenues by Source  
Fiscal Year Ended June 30**

	FY Ended June 30	Member Contributions <sup>(1)</sup>	Employer Contributions	Investment Income	Miscellaneous Income	Total	Employer Contributions as a % of Covered Payroll
<b>Public Employees Retirement System:</b>							
	1996	\$ 13,831,828	\$ 13,815,784	\$ 97,707,027	\$ 7,631	\$ 125,362,270	4.00%
	1997	14,320,237	14,435,989	143,090,676	9,259	171,856,161	4.02
	1998	15,061,818	15,078,427	134,886,733	9,230	165,036,208	3.98
	1999	16,152,785	15,873,917	108,255,409	3,874	140,285,985	3.99
	2000	16,618,771	16,521,248	103,230,684	10,530	136,381,233	4.04
	2001	17,353,268	17,101,628	(53,115,303)	7,570	(18,652,837)	3.95
<b>Highway Patrolmen's Retirement System:</b>							
	1996	383,061	621,080	3,543,880	73	4,548,094	16.51
	1997	395,459	641,179	5,080,715	59	6,117,412	15.43
	1998	430,585	698,132	4,763,168	65	5,891,950	16.06
	1999	442,441	717,357	3,795,110	36	4,954,944	16.06
	2000	457,079	741,089	3,603,516	65	4,801,749	15.92
	2001	486,332	788,125	(1,872,449)	60	(597,932)	16.17

<sup>(1)</sup> Member contributions include statutory contributions and service purchases. Contributions for repurchased service credit were \$1,080,008 and \$925,534 for the fiscal years ended June 30, 2001 and 2000.

**Expenses by Type  
Fiscal Year Ended June 30**

	FY Ended June 30	Benefits	Administrative Expenses	Transfers and Refunds	Total
<b>Public Employees Retirement System:</b>					
	1996	\$ 21,282,613	\$ 555,421	\$ 3,188,181	\$ 25,026,215
	1997	23,314,065	565,778	3,477,574	27,357,417
	1998	26,696,621	605,241	4,292,281	31,594,143
	1999	29,150,704	718,396	3,920,011	33,789,111
	2000	34,026,828	800,529	12,545,193 <sup>(1)</sup>	47,372,550
	2001	36,676,998	894,868	4,050,284	41,622,150
<b>Highway Patrolmen's Retirement System:</b>					
	1996	1,067,614	15,161	113,697	1,196,472
	1997	1,215,732	15,710	42,121	1,273,563
	1998	1,329,615	12,989	0	1,342,604
	1999	1,453,640	12,966	4,784	1,471,390
	2000	1,629,020	13,821	6,576	1,649,417
	2001	1,660,303	14,482	10,994	1,685,779

<sup>(1)</sup> Includes transfers of \$8,544,005 to the new optional Defined Contribution Plan

**Schedule of Benefit Expenses by Type – PERS and HPRS  
Fiscal Year Ended June 30**

FY Ended June 30	Annuities <sup>(1)</sup>			Refunds		Total
	Retirant	Survivor	Death	Separation	Transfers	
1996	\$ 20,715,499	\$ 1,534,966	\$ 99,762	\$ 3,171,104	\$ 130,774	\$ 25,652,105
1997	22,750,307	1,693,435	86,055	3,301,240	218,455	28,049,492
1998	25,948,775	1,952,504	124,957	4,075,399	216,882	32,318,517
1999	28,281,417	2,274,824	48,103	3,790,658	134,137	34,529,139
2000	32,992,363	2,567,201	96,284	3,858,678	8,693,091	48,207,617
2001	35,369,114	2,776,478	191,709	3,746,348	314,930	42,398,579

<sup>(1)</sup> Includes disability benefits

**Schedule of Retired Members by Type of Benefit – PERS  
As of June 30, 2001**

Monthly Amount	Main System				
	Total	Type of Pension			
		Normal	Early	Disability	Service *
Total	4,479	1,632	1,533	276	1,038
Less than \$200	743	340	364	29	10
\$200 - \$ 399	1,176	478	569	115	14
400 - 599	795	313	366	88	28
600 - 799	446	189	148	29	80
800 - 999	322	88	45	11	178
1,000 - 1,199	246	74	19	2	151
1,200 - 1,399	198	48	9	-	141
1,400 - 1,599	128	28	3	1	96
1,600 - 1,799	109	23	4	-	82
1,800 - 1,999	76	15	2	-	59
2,000 - 2,199	68	9	1	1	57
2,200 - 2,399	47	6	3	-	38
2,400 - 2,599	36	4	-	-	32
2,600 - 2,799	34	7	-	-	27
2,800 - 2,999	12	3	-	-	9
3,000 & Over	43	7	-	-	36
Life	3,004	1,131	1,136	222	515
Level Social Security Payment	66	-	12	-	54
Joint & 100% Survivor	656	264	177	23	192
Joint & 50% Survivor	513	152	112	21	228
10 Year C & L	190	65	79	7	39
5 Year C & L	50	20	17	3	10
Total	4,479	1,632	1,533	276	1,038

\*Includes Rule of 85, Rule of 88 and Rule of 90.

**Schedule of Average Benefit Payments – PERS  
As of June 30, 2001**

	Main System						Total
	Years of Credited Service						
	<10	10-14	15-19	20-24	25-29	>=30	
<b>1997</b>							
Number of Retirees	606	811	720	498	403	566	3,604
Average Monthly Benefit	\$175	\$271	\$385	\$545	\$863	\$1,350	\$551
Average Years of Service	6.44	12.31	17.37	22.23	27.10	35.23	18.96
<b>1998</b>							
Number of Retirees	655	855	769	537	428	599	3,843
Average Monthly Benefit	\$176	\$277	\$394	\$563	\$896	\$1,371	\$562
Average Years of Service	6.43	12.35	17.36	22.26	27.09	35.16	18.93
<b>1999</b>							
Number of Retirees	708	894	812	568	470	650	4,102
Average Monthly Benefit	\$193	\$304	\$435	\$626	\$994	\$1,516	\$627
Average Years of Service	6.47	12.32	17.38	22.26	27.11	35.15	19.00
<b>2000</b>							
Number of Retirees	764	907	833	606	493	683	4,286
Average Monthly Benefit	\$ 199	\$ 304	\$ 438	\$ 641	\$ 1,014	\$ 1,538	\$ 637
Average Years of Service	6.46	12.30	17.37	22.27	27.15	35.08	18.99
<b>2001</b>							
Number of Retirees	811	936	863	634	528	707	4,479
Average Monthly Benefit	\$ 214	\$ 327	\$ 475	\$ 700	\$ 1,099	\$ 1,668	\$ 691
Average Years of Service	6.42	12.30	17.40	22.29	27.18	35.13	18.99



**Schedule of Retired Members by Type of Benefit – PERS  
As of June 30, 2001**

Monthly Amount	Total	Judges				Service *
		Type of Pension				
		Normal	Early	Disability		
Total	11	6	3	0		2
Less than \$200	-	-	-	-	-	-
\$200 - \$ 399	-	-	-	-	-	-
400 - 599	-	-	-	-	-	-
600 - 799	-	-	-	-	-	-
800 - 999	-	-	-	-	-	-
1,000 - 1,199	-	-	-	-	-	-
1,200 - 1,399	2	1	-	-	-	1
1,400 - 1,599	-	-	-	-	-	-
1,600 - 1,799	3	2	1	-	-	-
1,800 - 1,999	-	-	-	-	-	-
2,000 - 2,199	-	-	-	-	-	-
2,200 - 2,399	-	-	-	-	-	-
2,400 - 2,599	-	-	-	-	-	-
2,600 - 2,799	1	1	-	-	-	-
2,800 - 2,999	1	-	1	-	-	-
3,000 & Over	4	2	1	-	-	1
Life	1	1	-	-	-	-
Level Social Security Payment	-	-	-	-	-	-
Joint & 100% Survivor	7	5	1	-	-	1
Joint & 50% Survivor	3	-	2	-	-	1
10 Year C & L	-	-	-	-	-	-
5 Year C & L	-	-	-	-	-	-
Total	11	6	3	0		2

*\*Includes Rule of 85, Rule of 88, and Rule of 90.*

**Schedule of Average Benefit Payments – PERS  
As of June 30, 2001**

	Judges						Total
	Years of Credited Service						
	<10	10-14	15-19	20-24	25-29	>=30	
<b>1997</b>							
Number of Retirees	1	4	1	1	0	0	7
Average Monthly Benefit	\$1,120	\$1,450	\$2,823	\$3,022	\$0	\$0	\$1,824
Average Years of Service	8.50	10.71	17.33	20.33	0.00	0.00	12.71
<b>1998</b>							
Number of Retirees	1	4	1	2	0	0	8
Average Monthly Benefit	\$1,143	\$1,479	\$2,879	\$3,522	\$0	\$0	\$2,123
Average Years of Service	8.50	10.71	17.33	21.79	0.00	0.00	14.03
<b>1999</b>							
Number of Retirees	1	5	3	1	0	0	10
Average Monthly Benefit	\$ 1,166	\$1,722	\$2,789	\$4,040	\$0	\$0	\$2,218
Average Years of Service	8.50	11.30	18.61	23.25	0.00	0.00	14.41
<b>2000</b>							
Number of Retirees	1	5	2	1	0	0	9
Average Monthly Benefit	\$ 1,189	\$ 1,756	\$ 3,069	\$ 4,121	\$ 0	\$ 0	\$ 2,248
Average Years of Service	8.50	11.30	18.29	23.25	0.00	0.00	13.87
<b>2001</b>							
Number of Retirees	1	5	3	2	0	0	11
Average Monthly Benefit	\$ 1,213	\$ 1,791	\$ 3,087	\$ 3,940	\$ 0	\$ 0	\$ 2,222
Average Years of Service	8.50	11.30	18.61	23.63	0.00	0.00	15.28

**Schedule of Retired Members by Type of Benefit – PERS  
As of June 30, 2001**

**National Guard**

Monthly Amount	Total	Type of Pension			
		Normal	Early	Disability	Service *
Total	3	1	2	0	0
Less than \$200	-	-	-	-	-
\$200 - \$ 399	-	-	-	-	-
400 - 599	1	1	-	-	-
600 - 799	1	-	1	-	-
800 - 999	-	-	-	-	-
1,000 - 1,199	-	-	-	-	-
1,200 - 1,399	-	-	-	-	-
1,400 - 1,599	-	-	-	-	-
1,600 - 1,799	1	-	1	-	-
1,800 - 1,999	-	-	-	-	-
2,000 - 2,199	-	-	-	-	-
2,200 - 2,399	-	-	-	-	-
2,400 - 2,599	-	-	-	-	-
2,600 - 2,799	-	-	-	-	-
2,800 - 2,999	-	-	-	-	-
3,000 & Over	-	-	-	-	-
Life	2	1	1	-	-
Level Social Security Payment	1	-	1	-	-
Joint & 100% Survivor	-	-	-	-	-
Joint & 50% Survivor	-	-	-	-	-
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	3	1	2	0	0

*\*Includes Rule of 85, Rule of 88, and Rule of 90.*

**Schedule of Average Benefit Payment – PERS  
As of June 30, 2001**

**National Guard**

Years of Credited Service

	<10	10-14	15-19	20-24	25-29	>=30	Total
<b>1997</b>							
Number of Retirees	0	0	1	0	0	0	1
Average Monthly Benefit	\$0	\$0	\$631	\$0	\$0	\$0	\$631
Average Years of Service	0.00	0.00	19.16	0.00	0.00	0.00	19.16
<b>1998</b>							
Number of Retirees	0	0	1	1	0	0	2
Average Monthly Benefit	\$0	\$0	\$631	\$1,514	\$0	\$0	\$1,073
Average Years of Service	0.00	0.00	19.17	22.17	0.00	0.00	20.67
<b>1999</b>							
Number of Retirees	0	0	1	1	0	0	2
Average Monthly Benefit	\$0	\$0	\$682	\$1,635	\$0	\$0	\$1,159
Average Years of Service	0.00	0.00	19.17	22.17	0.00	0.00	20.67
<b>2000</b>							
Number of Retirees	0	0	1	1	0	0	2
Average Monthly Benefit	\$0	\$0	\$682	\$1,635	\$0	\$0	\$1,159
Average Years of Service	0.00	0.00	19.17	22.17	0.00	0.00	20.67
<b>2001</b>							
Number of Retirees	0	1	1	1	0	0	3
Average Monthly Benefits	\$0	\$537	\$723	\$1,733	\$0	\$0	\$998
Average Years of Service	0.00	11.08	19.17	22.17	0.00	0.00	17.47



**Schedule of Retired Members by Type of Benefit – HPRS  
As of June 30, 2001**

Monthly Amount	Type of Pension				
	Total	Normal	Early	Disability	Rule of 80
Total	61	36	1	1	23
Less than \$200	-	-	-	-	-
\$200 - \$ 399	3	3	-	-	-
400 - 599	4	4	-	-	-
600 - 799	-	-	-	-	-
800 - 999	-	-	-	-	-
1,000 - 1,199	1	1	-	-	-
1,200 - 1,399	2	2	-	-	-
1,400 - 1,599	1	-	-	1	-
1,600 - 1,799	3	2	-	-	1
1,800 - 1,999	1	1	-	-	-
2,000 - 2,199	7	5	1	-	1
2,200 - 2,399	6	3	-	-	3
2,400 - 2,599	10	6	-	-	4
2,600 - 2,799	11	4	-	-	7
2,800 - 2,999	2	-	-	-	2
3,000 & Over	10	5	-	-	5
Life	8	2	-	1	5
Level Social Security Payment	-	-	-	-	-
Joint & 100% Survivor	7	3	-	-	4
Joint & 50% Survivor	46	31	1	-	14
10 Year C & L	-	-	-	-	-
5 Year C & L	-	-	-	-	-
Total	61	36	1	1	23

**Schedule of Average Benefit Payment – HPRS  
As of June 30, 2001**

	Years of Credited Service						Total
	<10	10-14	15-19	20-24	25-29	>=30	
<b>1997</b>							
Number of Retirees	0	0	5	5	28	12	50
Average Monthly Benefit	\$0	\$0	\$332	\$1,151	\$2,213	\$2,456	\$1,977
Average Years of Service	0.00	0.00	16.30	22.11	28.33	31.21	27.19
<b>1998</b>							
Number of Retirees	1	1	5	4	29	13	53
Average Monthly Benefit	\$1,374	\$1,023	\$339	\$1,283	\$2,224	\$2,393	\$1,978
Average Years of Service	2.25	13.50	16.30	21.88	28.35	31.15	26.63
<b>1999</b>							
Number of Retirees	1	1	5	4	34	13	58
Average Monthly Benefit	\$ 1,374	\$1,070	\$354	\$1,342	\$2,390	\$2,491	\$2,125
Average Years of Service	2.25	13.50	16.30	21.88	28.17	31.15	26.68
<b>2000</b>							
Number of Retirees	1	1	5	4	35	13	59
Average Monthly Benefits	\$ 1,374	\$ 1,070	\$ 354	\$ 1,342	\$ 2,353	\$ 2,491	\$ 2,107
Average Years of Service	2.25	13.50	16.30	21.88	28.13	31.15	26.69
<b>2001</b>							
Number of Retirees	1	1	5	4	37	13	61
Average Monthly Benefits	\$ 1,456	\$ 1,133	\$ 375	\$ 1,421	\$ 2,542	\$ 2,620	\$ 2,267
Average Years of Service	2.25	13.5	16.30	21.88	28.15	31.15	26.72

## SCHEDULE OF PARTICIPATING EMPLOYERS

### STATE AGENCIES:

ADJUTANT GENERAL ARMY NATL GRD  
AERONAUTICS COMMISSION  
AGRICULTURAL PROD UTIL COMM  
ATTORNEY GENERAL'S OFFICE  
BANK OF NORTH DAKOTA  
BEEF COMMISSION  
BISMARCK STATE COLLEGE  
BOARD OF NURSING  
CENTRAL DUPLICATING - OMB  
CHILDREN'S SERV COOR COMMITTEE  
DAIRY PROMOTION COMMISSION  
DEPT OF AGRICULTURE  
DEPT OF BANKING & FINANCE  
DEPT OF HUMAN SERVICES  
DEPARTMENT OF CORRECTIONS  
DEPARTMENT OF TRANSPORTATION  
DEVELOPMENTAL CENTER  
DICKINSON STATE UNIVERSITY  
ECONOMIC DEVELOPMENT & FINANCE  
EDUCATION STANDARDS & PRACTICE  
GAME & FISH DEPT  
GOVERNOR'S OFFICE  
HIGHWAY PATROL  
HISTORICAL SOCIETY  
HOUSING FINANCE AGENCY  
INDIAN AFFAIRS COMMISSION  
INDUSTIAL COMMISSION  
INFORMATION TECHNOLOGY DEPARTMENT  
INSURANCE DEPARTMENT  
JAMES RIVER CORRECTIONAL CENTER  
JAMESTOWN STATE HOSPITAL  
JOB SERVICE NORTH DAKOTA  
LAND DEPARTMENT  
LEGISLATIVE COUNCIL  
MAYVILLE STATE UNIVERSITY  
MILK MARKETING BOARD  
MILL & ELEVATOR ASSOCIATION  
MINOT STATE UNIVERSITY  
MUNICIPAL BOND BANK  
ND BARLEY COUNCIL  
ND CORN UTILIZATION COUNCIL  
ND COUNCIL ON THE ARTS  
ND DEPARTMENT OF HEALTH  
ND DEPARTMENT OF LABOR  
ND DIV OF EMERGENCY MANAGEMENT  
ND OILSEED COUNCIL  
ND SOYBEAN COUNCIL  
ND ST BOARD OF COSMETOLOGY  
ND ST COLLEGE OF SCIENCE  
ND STATE LIBRARY  
ND SUPREME COURT  
ND TOURISM DEPARTMENT  
ND UNIVERSITY SYSTEM  
ND VETERANS HOME  
ND WHEAT COMMISSION  
ND YOUTH CORRECTIONAL CENTER  
NORTH DAKOTA STATE UNIVERSITY  
OFFICE OF ADM HEARING  
OFFICE OF MANAGEMENT & BUDGET  
PARKS & RECREATION DEPARTMENT  
PROTECTION & ADVOCACY PROJECT  
PUBLIC EMPLOYEES RETIREMENT  
PUBLIC INSTRUCTION  
PUBLIC SERVICE COMMISSION  
RADIO COMMUNICATIONS  
RETIREMENT & INVESTMENT OFFICE  
ROUGH RIDER INDUSTRIES  
SCHOOL FOR THE BLIND  
SCHOOL FOR THE DEAF  
SECRETARY OF STATE  
SECURITIES COMMISSIONER  
SOIL CONSERVATION COMMITTEE  
STATE AUDITOR'S OFFICE  
STATE BAR BOARD  
STATE FAIR ASSN  
STATE PAROLE BOARD  
STATE PENITENTIARY  
STATE SEED DEPARTMENT  
STATE TREASURER'S OFFICE  
TAX DEPARTMENT  
TECHNOLOGY TRANSFER, INC  
UND - LAKE REGION

UNIVERSITY OF NORTH DAKOTA  
VALLEY CITY STATE UNIVERSITY  
VETERANS AFFAIRS DEPARTMENT  
VOCATIONAL & TECHNICAL ED  
WATER COMMISSION  
WORKER'S COMPENSATION BUREAU  
**Total = 88**

### COUNTIES:

ADAMS COUNTY  
BENSON COUNTY  
BILLINGS COUNTY  
BOTTINEAU COUNTY  
BOWMAN COUNTY  
BURKE COUNTY  
BURLEIGH COUNTY  
CASS COUNTY  
CAVALIER COUNTY  
DICKEY COUNTY  
DIVIDE COUNTY  
DUNN COUNTY  
EDDY COUNTY  
EMMONS COUNTY  
FOSTER COUNTY  
GRAND FORKS COUNTY  
GRIGGS COUNTY  
HETTINGER COUNTY  
LAMOURE COUNTY  
LOGAN COUNTY  
MCHENRY COUNTY  
MCINTOSH COUNTY  
MCKENZIE COUNTY  
MCLEAN COUNTY  
MOUNTRAIL COUNTY  
NELSON COUNTY  
PEMBINA COUNTY  
PIERCE COUNTY  
RAMSEY COUNTY  
RANSOM COUNTY  
RENVILLE COUNTY  
RICHLAND COUNTY  
SLOPE COUNTY  
STARK COUNTY  
STEELE COUNTY  
STUTSMAN COUNTY  
TRAILL COUNTY  
WALSH COUNTY  
WARD COUNTY  
WELLS COUNTY  
WILLIAMS COUNTY  
**Total = 41**

### SCHOOLS:

APPLE CREEK ELEMENTARY SCHOOL  
BELCOURT SCHOOL DIST #7  
BELFIELD PUBLIC SCHOOL #13  
BERTHOLD PUBLIC SCHOOL DIST  
BEULAH PUBLIC SCHOOL #27  
BISMARCK PUBLIC SCHOOLS  
BOTTINEAU PUBLIC SCHOOL  
BOWMAN PUBLIC SCHOOL DIST #1  
CAVALIER PUBLIC SCHOOLS  
CENTRAL CASS PUBLIC SCHOOL #7  
DEVILS LAKE PUBLIC SCHOOL  
DICKEY LAMOURE MULTIDIST SP ED  
DICKINSON PUBLIC SCHOOLS  
DIVIDE COUNTY SCHOOL DIST #1  
DRAYTON PUBLIC SCHOOL #19  
DUNSEITH SCHOOL DISTRICT #1  
ELLENDALE PUBLIC SCHOOL #40  
ENDERLIN PUBLIC SCHOOL  
FARGO PUBLIC SCHOOLS  
FT. TOTTEN SCHOOL DISTRICT #30  
GLENBURN PUBLIC SCHOOL  
GLEN ULLIN PUBLIC SCHOOL #48  
GRAFTON PUBLIC SCHOOL DIST #3  
HALLIDAY PUBLIC SCHOOL  
HARVEY PUBLIC SCHOOL DIST #38  
HAZEN PUBLIC SCHOOL DIST #3  
HILLSBORO PUBLIC SCHOOL  
JAMESTOWN PUBLIC SCHOOL #1  
KILLDEER PUBLIC SCHOOL #16  
KINDRED PUBLIC SCHOOL DIST #2



KULM PUBLIC SCHOOL DIST #7  
 LAKE REGION SPECIAL ED UNIT  
 LAMOURE SCHOOL DISTRICT #8  
 LARIMORE PUBLIC SCHOOL  
 LIDGERWOOD PUBLIC SCHOOL  
 LINTON PUBLIC SCHOOL  
 LISBON PUBLIC SCHOOL  
 LITTLE HEART PUBLIC SCHOOL DIST #4  
 MANDAN PUBLIC SCHOOL DIST #1  
 MANDAREE PUBLIC SCHOOL #36  
 MANVEL PUBLIC SCHOOL  
 MAPLETON PUBLIC SCHOOL  
 MCKENZIE CTY PUBLIC SCHOOL #1  
 MIDWAY PUBLIC SCHOOL DIST #128  
 MINOT PUBLIC SCHOOL DIST #1  
 MINTO PUBLIC SCHOOL DIST #20  
 MOHALL PUBLIC SCHOOL  
 MOTT/REGENT PUBLIC SCHOOL DIST #1  
 MT PLEASANT SCHOOL DIST #4  
 NAPOLEON PUBLIC SCHOOL DIST #2  
 NEW PUBLIC SCHOOL #8  
 NEW SALEM SCHOOL DIST #7  
 NEW TOWN PUBLIC SCHOOL #1  
 NEWBURG UNITED PUBLIC SCHOOL  
 NORTHERN CASS SCHOOL DIST #97  
 NORTH SHORE SCHOOL DIST #158  
 OAKES PUBLIC SCHOOLS  
 OLIVER-MERCER SPECIAL ED UNIT  
 PARK RIVER PUBLIC SCHOOLS  
 PEACE GARDEN SPECIAL SERVICES  
 PEMBINA PUBLIC SCHOOL  
 RICHLAND SCHOOL DIST #44  
 ROLETTE COUNTY ALT ED CONSORT  
 RUGBY PUBLIC SCHOOL DIST #5  
 SOLEN PUBLIC SCHOOL DIST #3  
 SOURIS VALLEY SPECIAL SERVICES  
 ST JOHN SCHOOL DIST #3  
 SURREY SCHOOLS  
 SWEET BRIAR SCHOOL DIST #17  
 TGU SCHOOL DISTRICT #60  
 TIOGA PUBLIC SCHOOL  
 TURTLE LAKE MERCER SCHOOL DIST  
 UNDERWOOD SCHOOL DIST #8  
 VALLEY CITY MULTI-DIST VOC CT  
 VALLEY CITY PUBLIC SCHOOL  
 WARWICK PUBLIC SCHOOL  
 WEST FARGO PUBLIC SCHOOL #6  
 WESTHOPE PUBLIC SCHOOL #17  
 WHITE SHIELD SCHOOL DIST #85  
 WILLISTON PUBLIC SCHOOL #1  
 YELLOWSTONE SCHOOL DIST #14  
**Total = 81**

**CITIES:**

CITY OF ASHLEY  
 CITY OF BELFIELD  
 CITY OF BOWMAN  
 CITY OF CARRINGTON  
 CITY OF CAVALIER  
 CITY OF COOPERSTOWN  
 CITY OF CROSBY  
 CITY OF DRAYTON  
 CITY OF ELGIN  
 CITY OF ELLENDALE  
 CITY OF EMERADO  
 CITY OF FESSENDEN  
 CITY OF FINLEY  
 CITY OF GLENBURN  
 CITY OF GRAFTON  
 CITY OF GRANVILLE  
 CITY OF GWINNER  
 CITY OF HANKINSON  
 CITY OF HARVEY  
 CITY OF HATTON  
 CITY OF HETTINGER  
 CITY OF KENMARE  
 CITY OF LARIMORE  
 CITY OF LAMOURE  
 CITY OF LINCOLN  
 CITY OF LINTON  
 CITY OF MCVILLE  
 CITY OF MEDORA  
 CITY OF MICHIGAN

CITY OF MINTO  
 CITY OF MOTT  
 CITY OF NAPOLEON  
 CITY OF NECHE  
 CITY OF NEW ENGLAND  
 CITY OF NEW LEIPZIG  
 CITY OF NEW ROCKFORD  
 CITY OF NEW TOWN  
 CITY OF NORTHWOOD  
 CITY OF OAKES  
 CITY OF PARK RIVER  
 CITY OF PEMBINA  
 CITY OF POWERS LAKE  
 CITY OF RAY  
 CITY OF ROLLA  
 CITY OF RUGBY  
 CITY OF SCRANTON  
 CITY OF STANLEY  
 CITY OF SURREY  
 CITY OF THOMPSON  
 CITY OF TIOGA  
 CITY OF TOWNER  
 CITY OF UNDERWOOD  
 CITY OF VELVA  
 CITY OF WALHALLA  
 CITY OF WATFORD CITY  
 CITY OF WEST FARGO  
 CITY OF WESTHOPE  
 CITY OF WILTON  
 CITY OF ZEELAND  
**Total = 59**

**OTHER POLITICAL SUBDIVISIONS:**

BARNES COUNTY SOIL CONSERVATION DIST  
 BISMARCK RURAL FIRE PROTECTION  
 BOARD OF MEDICAL EXAMINERS  
 BOARD OF PHARMACY  
 BOWMAN CITY PARK BOARD  
 BURLEIGH CO SOIL CONSERVATION  
 CARNEGIE REGIONAL LIBRARY  
 CASS COUNTY SOIL CONSERVATION DIST  
 CASS CTY WATER RESOURCE DIST  
 CAVALIER CNTY JOB DEVELOPMENT  
 CAVALIER COUNTY HEALTH DIST  
 CENTRAL VALLEY HEALTH UNIT  
 CITY-COUNTY HEALTH DISTRICT  
 CONSOLIDATED WASTE LTD  
 CUSTER DIST HEALTH UNIT  
 DEVILS LAKE BASIN JOINT WATER  
 ELECTRICAL BOARD  
 EMMONS DISTRICT HEALTH UNIT  
 FIRST DISTRICT HEALTH UNIT  
 GARRISON DIVERSION CONSERVATION DIST  
 GRAFTON PARK DISTRICT  
 GRAND FORKS CTY WATER RESOURCE  
 GRIGGS COUNTY LIBRARY  
 KIDDER COUNTY DIST HEALTH UNIT  
 LAKE METIGOSHE REC SERV DIST  
 LAKE REGION DIST HEALTH UNIT  
 MCINTOSH DISTRICT HEALTH UNIT  
 MERCER CTY SOIL CONSERVATION DIST  
 ND ST BOARD OF ACCOUNTANCY  
 NELSON COUNTY SOIL CONSERVATION  
 NELSON-GRIGGS DIST HEALTH UNIT  
 PLUMBING BOARD  
 R & T WATER SUPPLY ASSOCIATION  
 RAMSEY COUNTY SOIL CONSERVATION DIST  
 REAL ESTATE COMMISSION  
 RICHLAND COUNTY AREA VOC TECH  
 RURAL UTILITIES OF RAMSEY CTY  
 SARGENT CTY DIST HEALTH UNIT  
 S W DISTRICT HEALTH UNIT  
 SOUTHWEST WATER AUTHORITY  
 STUTSMAN CO HOUSING AUTHORITY  
 TRAILL CTY WATER RESOURCE DIST  
 TRAILL DISTRICT HEALTH UNIT  
 UPPER MISSOURI HEALTH UNIT  
 WALSH CITY WATER RESOURCE DIST  
 WALSH COUNTY HOUSING AUTHORITY  
 WARD COUNTY WATER RESOURCE DIST  
 WATFORD CITY PARK DIST  
 WELLS COUNTY DIST HEALTH UNIT  
**Total = 49**

**Deferred Compensation Program  
Schedule of Assets**

**By Provider**

	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01
Aetna	\$ 1,829,677	\$ 2,052,235	\$ 1,580,407	\$ 1,631,909	\$ 1,371,510
American Express Financial Advisors	11,564,600	15,046,248	----	----	----
Bank of North Dakota	1,904,583	2,049,985	2,308,615	2,558,319	2,714,110
The Equitable	37,535,458	41,550,448	32,203,884	33,047,681	28,807,160
Great West Life	162,501	263,776	364,473	----	----
The Hartford	1,215,853	1,820,128	3,782,673	5,372,109	6,176,828
Jackson National	1,336,013	1,486,011	1,713,161	1,633,441	1,271,183
John Kinnard <sup>(1)</sup>	76,233	110,495	122,067	111,789	74,467
Kemper	1,206,863	1,519,864	1,913,566	2,693,930	2,611,732
Lincoln National	2,987,334	4,974,853	6,524,299	8,563,190	7,678,043
Manhattan Life	9,761	1,788	----	----	----
Nationwide	----	----	10,314,806	12,465,661	10,869,181
New York Life <sup>(1)</sup>	1,340,573	1,765,388	1,104,597	1,118,653	863,482
NDPERS Companion Plan <sup>(1)</sup>	----	----	4,141,310	5,585,780	6,748,503
Prudential	9,761	9,025	----	----	----
ReliaStar	192,637	101,482	----	----	----
Safeco Life	793,274	1,067,536	1,567,773	1,760,140	1,608,008
Sunset Life	449,494	284,339	294,980	315,374	338,294
United Services Life	237,800	232,942	----	----	----
VALIC	245,864	367,134	589,117	1,190,959	943,251
Waddell & Reed	<u>1,126,106</u>	<u>1,720,344</u>	<u>2,632,449</u>	<u>3,828,708</u>	<u>3,591,244</u>
Total <sup>(2)</sup>	\$64,224,385	\$76,424,021	\$71,158,177	\$81,877,643	\$ 75,666,996

<sup>(1)</sup>As of January 1, 1999, the System is the trustee for these deferred compensation assets and is reporting them as an expandable trust fund in the June 30, 2000 and June 30, 2001 financial statements.

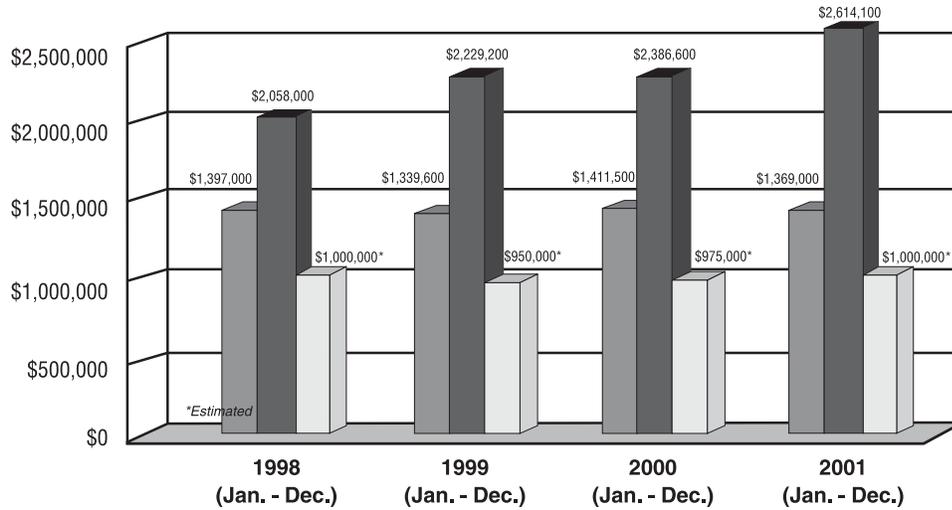
All other assets are being held in trust, by the respective provider company, for the exclusive benefit of participants and their beneficiaries. Accordingly, these assets are not included in the System's financial statements.

<sup>(2)</sup>Prior to January 1, 1999, the System included account balances for deferred compensation accounts that had been annuitized and were in payout status. Due to changes made to IRC Section 457, the System no longer reports these balances. This change resulted in approximately \$13.1 million being removed from the assets reported on this schedule.

### FLEXCOMP PARTICIPATION

Dependent Care 
  Medical Spending 
  Pre-Tax Premiums

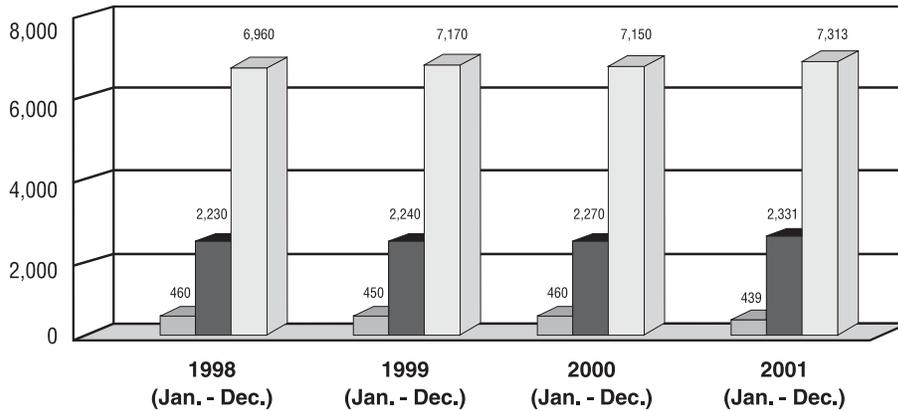
DOLLARS



### FLEXCOMP PARTICIPATION

Dependent Care 
  Medical Spending 
  Pre-Tax Premiums

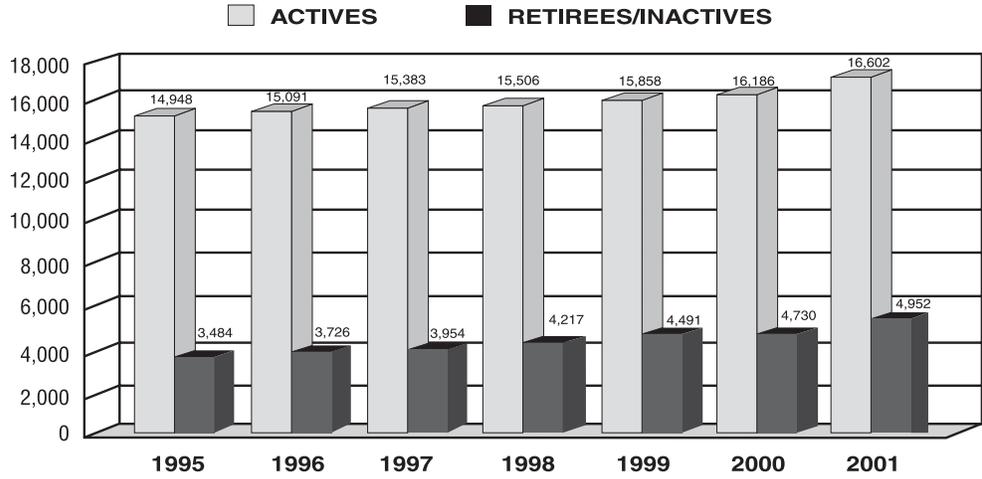
PARTICIPANTS



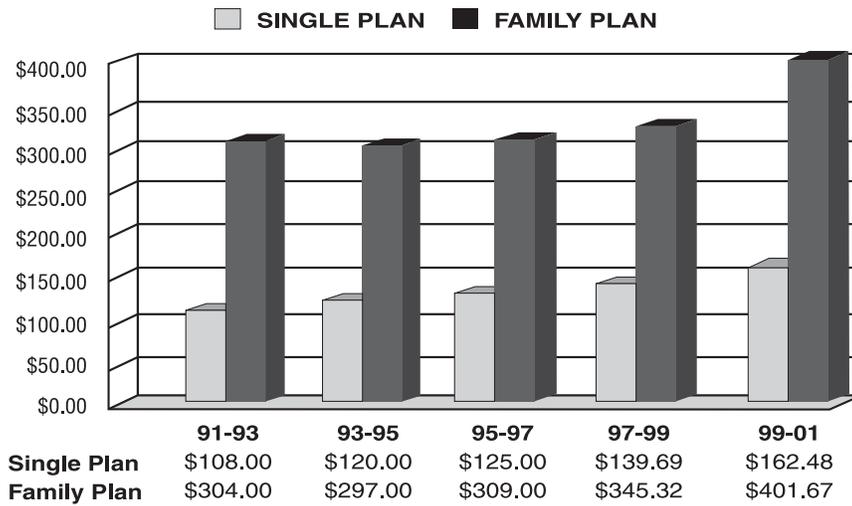
STATISTICS

### GROUP HEALTH INSURANCE PROGRAM

Average Number of Contracts in Force



Health Insurance Premium Active State Contracts





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